



FEDERAL BUDGET 2023-24

TAX MEMORANDUM



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PREFACE

The Finance Bill 2023-2024 (the Bill) was presented in National Assembly on 9th June 2023.

This document contains brief comments on the changes proposed through the Bill. All changes proposed through the Bill, subject to approval by National Assembly and Presidential assent, are effective July 1, 2023.

The Tax Memorandum contains the comments, which represent our interpretation of the legislation. We, therefore, recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant statute(s).

The tax memorandum is also available online and can also be accessed at our website www.mooreshekhamufti.com

10 June 2023

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HIGHLIGHTS

DIRECT TAX

Income Tax Ordinance, 2001

1. Super Tax has been made applicable on all the taxpayers based on uniform slab tax rates with the maximum rate of 10% for income exceeding Rs. 500 million.
2. Re-imposition of 0.6% advance withholding tax on cash withdrawals from persons not appearing in active taxpayers list (ATL).
3. Increase in withholding tax rates on supply of goods from 4% to 5% for companies and from 4.5% to 5.5% for other than companies.
4. Increase in withholding tax rates on rendering of services from 8% to 9% for companies and from 10% to 11% for other than companies.
5. Increase in withholding tax rate for specified service sectors from 3% to 4%.
6. Increase in withholding tax rates on execution of contracts from 6.5% to 7.5% for companies and from 7% to 8% for other than companies.
7. Increase in withholding tax rate for commercial importer on import of finished goods from 5.5% to 6%.
8. Re-imposition of 10% tax on issuance of bonus shares under Final Tax Regime.
9. Increase in withholding tax rate on foreign remittances through debit/credit or prepaid cards from 1% to 5%.
10. Advance tax of Rs. 200,000 from sponsor/agency/person to be charged at the time of issuance of work permit/visa on employment of a foreign domestic worker.
11. Additional tax upto 50% to be imposed on unexpected income, profits or gains of any person or class of persons that arose on account of economic factors whether or not disclosed in financial statements.
12. Reduced rate of tax under Rule 7D, 7E, 7F of the Seventh Schedule would continue to be applicable for banking companies for upto Tax Year 2025.
13. Reduced rate of tax of 20% is introduced for banking companies in respect of advances for information technology services and information technology enabled services for Tax Years 2024 and 2025.
14. The Scope of definition of Permanent Establishment in Pakistan of non-resident person has been broadened.
15. The definition of "associates" is broadened and made more encompassing.
16. It is clarified that minimum tax credit under Section 113(2)(c) would be available against normal tax liability of subsequent tax years and not against minimum tax and super tax liabilities.
17. Super tax would be applicable to banking companies for Tax Year 2023 and onwards.
18. Super tax would now be accounted for in computing quarterly advance tax liability.
19. The Commissioner Inland Revenue can recover outstanding non-tax revenue under other laws under the provisions of the Ordinance.
20. Reduced tax collection rate of 0.25% of Export proceeds of Computer software or IT services or IT enabled services by persons registered with Pakistan Software Export Board has been limited for upto Tax Years 2026.
21. Export of Computer software or IT services or IT enabled services has been exempted from the filing of sales tax returns under the Federal or Provincial laws.

22. Exemption certificate will be deemed to be automatically issued by the Commissioner within 30 days of filing of the intimation for Nil withholding of income tax submitted electronically in respect of a payment to non-resident.
23. Reduced tax rate of 20% for small companies has been abolished and now such reduced tax rate would be applicable for Small and Medium Enterprises engaged either in manufacturing or provision of IT services and IT enabled Services, provided their turnover does not exceed Rs.800 million.
24. The monetary limit of exemption for addition on account of an unexplained income or assets under Section 111 for foreign exchange remittance through banking channel has been increased from five million rupees to rupees equivalent to one hundred thousand US Dollars in a year.
25. Relief from 2% advance tax on purchase of immovable property made by the non-resident individual who has acquired the said immovable property through a Foreign remittance.
26. The annual tax liability on profit and gains of a builder under Section 7C would be reduced by lower of 10% or Rs.5,000,000/- for Tax Years 2024 to 2026.
27. Tax liability of an individual would be reduced by lower of 10% or Rs.1,000,000/- on account of 'Own construction of house' for Tax Years 2024 to 2026.
28. Reduction of tax liability on business income of youth enterprises by lower of 50% or Rs.2million for Individuals / 'AOPs' and by lower of 50% or Rs.5 million for companies.
29. Minimum tax liability is reduced to 1% for listed companies.
30. Tax exemption on gain on sale of property or share of SPV to any type of RIET scheme is extended from June 30, 2023 to June 30, 2024.
31. Income tax exemption to residents of FATA/PATA under clause (145A) is extended from June 30, 2023 to June 30, 2024.
32. Income tax holiday given for Tax Years 2024 to 2028 for small and medium enterprises setup exclusively as agro based industry in rural area.

HIGHLIGHTS

INDIRECT TAX

Sales Tax Act, 1990

1. Medicament falling under Chapter 30 of First Schedule to the Customs Act, 1969 with certain exceptions have been brought @ 1% reduced rate regime with retrospective effect from 1 July 2022.
2. Transmission of electricity has been excluded from ambit of both "goods" as well as "supply" in line with consensus among the Federal and Provincial Governments through National Tax Council.
3. Rate of Tax for supplies of finished articles of textile and leather by Tier -1 Retailers enhanced from 12% to 15%
4. The scope of Export Facilitation Scheme has been extended to cover "commodities" as well.
5. Small retailers occupying shops measuring 1000 square feet or more, retailers of furniture items occupying shops measuring 2000 square feet or more and jewelers occupying shops measuring 300 square feet or more are no more required to obtain sales tax registration and integration with FBR's POS System.
6. Entire supply chain connected with foreign investment in Reko Diq Project entitled for zero rating.
7. Certain exempt food items sold in bulk quantities under brand names to attract sales tax.
8. Exemptions for supplies in erstwhile FATA / PATA region otherwise expiring on 30 June 2023 have been extended to 30 June 2024.
9. Certain agricultural machinery has been exempted from sales tax.
10. Import of specified equipment such as laptops, personal computers, mouse, CD rom drives, hard disk drives etc. by IT exporters exempted from sales tax.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

1. Freelance exporter of IT services having turnover up to Rs. 8 million exempted from sales tax.
2. Services rendered by IT based system development consultants to attract reduced rate of 15% instead of 16%.
3. Input tax credit debarred on IT & IT enabled services taxable @ 5%.
4. The definition of IT and IT-enabled services is harmonized with that of Income Tax Ordinance, 2001.
5. Services provided by restaurants to be taxed at reduced rate of 5% subject to condition of receipt of payment through debit / credit cards, mobile wallets or QR scanning. Such framework is already in vogue under Punjab Sales Tax Laws.
6. Electric power transmission services to be taxed @ 15%.
7. Zero rating on services provided to persons engaged in Rekodiq project.

Federal Excise Act 2005

1. Fee for Technical Services and royalty has been expressly subjected to FED @10%.
2. The entire supply chain connected with foreign investment in Reko Diq Project exempted from FED.
3. Energy Inefficient Fans and incandescent bulbs subjected to FED @ Rs.2,000 per fan and 20% ad val. respectively.

Custom Act, 1969

1. Exemption of customs duty (CD) / regulatory duty (RD) on the followings:
 - Raw materials of diapers, sanitary napkins, etc.
 - Various machinery moulds & dies, machine tools, mining machinery, rice mill machinery.
 - Machinery, equipment, and inputs used for manufacturing solar panels, inverters and batteries, Silicon steel sheets, steel bars and rods, articles of glass.
 - Organic Composite Solvent and Thinners, seeds for sowing, shrimps, prawns, juvenile, roasted peanuts.
 - IT Equipment for exporters of IT and IT enabling service providers.
 - Certain APIs and pharma packing materials, Secondhand clothing, fish, tiles, sports goods.
 - Flat panels, monitors and projectors, specific papers for printing the Holy Quran.
2. Existing exemption for flavoring powder for manufacturers of snacks, machinery and equipment imported by erstwhile FATA otherwise expiring on 30 June 2023 extended till 30 June 2024.
3. Reduction in CD on non-localized CKD of commercial vehicles, pet scrap for manufactures of polyester filament yarn and raw materials of capacitors.
4. Fixed duty regime for import of used vehicles of Asian Makes above 1300cc has been done away.
5. CD on carbides of calcium, and export of molasses has been enhanced.

INCOME TAX ORDINANCE, 2001

CHANGES IN TAXATION OF NON-RESIDENTS

Exemption Certificate to be Deemed Approved Section 152(5A)

Sub-section (5A) of Section 152 of the Ordinance empowers the CIR to issue an exemption certificate for non-withholding of tax within thirty (30) days of an intimation filed by the person making payment to non-resident person. The above Section, however, does not provide any penal provisions or any other consequence for the CIR in case where no action is taken within the prescribed time limit of 30 days. The absence of such a provisions made the above timeline as directory instead of mandatory.

The Bill proposes to insert a proviso under sub-section (5A), whereafter incase the certificate is neither issued under sub-section (5A) nor rejected under sub-section (6) by the CIR within the stipulated 30 days, it shall be deemed to be issued by the CIR and automatically processed by IRIS. It has been provided that the time taken by the applicant for adjournment shall be excluded for computing the period of 30 days. It has also been provided that CIR will remain empowered to cancel or modify the certificate issued automatically by IRIS for reasons to be recorded by him in writing after providing an opportunity of being heard to the taxpayer (Payer).

The proposed change is a positive shift and has been a constant demand by Bar association and other stakeholders as it would compel the CIR to take prompt action on the intimation filed by the payers.

Increase in Withholding Tax Rates Section 152(2A)

Presently, the rates of withholding tax under the provisions of section 152(2A) for payments to Permanent Establishment of a Non-resident are as follows:

- Supply of Goods - 4% for companies and 4.5% for other than companies.
- Rendering of Services - 8% for companies and 10% for other than companies.
- Rendering of specified twenty three (23) Services - 3%.
- Execution of Contracts - 7%.

It is proposed that all the aforesaid tax rates be increased by 1%.

The proposed changes would only increase the burden for taxpayers especially since the above tax deductions are minimum tax.

Exemption from Withholding Tax on Purchase of Immovable Property Section 236K

Presently, advance income tax at the rate of 2% is collected from person purchasing immovable properties.

Exemption from withholding tax is proposed for Non-Resident Individuals (NRIs) holding a Pakistan Origin Card (POC) or National ID card for Overseas Pakistani (NICOP) or Computerized National ID Card (CNIC) who purchase the Immovable property either through Foreign Currency Value Account (FCVA) or a Non-Resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan.

We understand that this is a positive initiative, which was necessary to absolve the non-resident from this unnecessary collection of tax as their foreign income were often not subject to Pakistan tax.

Definition of Permanent Establishment Broadened Section 2(41)

Permanent establishment (P.E.) has been defined under the Ordinance to mean a fixed place of business through which the business of the person is wholly or partly carried on. Hence, there had to be some sort of distinct place with a certain degree of permanence for it to be classified as fixed place of business.

It is proposed to broaden the definition of P.E. by deleting the word fixed from it. Consequently, any business which is being conducted by the non-resident person without having a fixed place in Pakistan would be construed to result in the existence of P.E. of the non-resident person in Pakistan. We understand that non-resident person not having a fixed place of business in Pakistan and earning through website would now be considered to be a P.E. in Pakistan.

Further, clause (d) includes furnishing of services, including consultancy services, by any person through employees or other personnel engaged by the person for such purpose as P.E. The Bill now seeks to add the word "entity" after the word "other personnel". Accordingly, if such services are provided by a non-resident person through outsourcing another entity, such non-resident person would be regarded as a P.E.

We understand that the above amendments would only apply for a non-resident residing in a country which does not have a avoidance of double tax treaty with Pakistan. As tax treaties, having an overriding effect over the Ordinance, normally stipulates the condition of having a fixed place of business as a pre-requisite for establishment of P.E. and as such the providing of services by personnel or employee only are covered.

CHANGES IN TAXATION OF INCOME FROM OTHER SOURCES

Changes in Taxation of Bonus Shares Section 2(29), Section 39 and Section 236Z

The concept to bring the bonus shares into the tax net was recently introduced through the Finance Act, 2014, whereby every company was liable to collect income tax @ 5% of the value of the Bonus Shares, which was subsequently done away through the Finance Act, 2018.

Bonus shares have again been brought back in the line items for taxable income yet again by introducing a new Section 236Z of the Ordinance through the Bill, whereby every company shall now collect tax @ 10% according to the face value of the Bonus Shares which needs to be submitted in the Government kitty within fifteen days of closure of books.

For this purpose, the definition of "Income" under which the exclusion for Bonus Share was couched has been changed and taken out for taxation.

Like Dividend Income, the allotted Bonus Shares will now be classified as "Income from other Sources" under Section 39 of the Ordinance. The tax so collected and paid will be the final tax liability for the shareholder with respect to the bonus shares under Section 169 of the Ordinance.

It has further been clarified that the value will be determined on the basis of day end price on the first day of closure of books in case of listed companies and the value as prescribed in case of unlisted / private companies.

A wholesome mechanism of collection of income tax on Bonus Shares has been provided that the company must deposit the tax amount within fifteen days of the closure of books, regardless of whether the tax has been collected from the shareholder or not. A company that is liable to deposit tax under this Section has the right to collect and recover the tax from the shareholder before issuing the bonus shares.

It has been provided that if a shareholder fails to make the tax payment to the company or neglects to collect the bonus shares within fifteen days of the issuance, the company has the authority to dispose of the bonus shares to the extent that tax has been paid on behalf of the shareholder.

On the slightly different note, it needs to be understood by the Tax Authorities about the fundamental idea behind the bonus shares is that when the bonus shares are issued by the Companies, the price of the existing shares gets reduced in the same proportion as the bonus shares are issued. Meaning thereby, the issuance of bonus shares is actually not an income of shareholders but a decline in the overall value of shares. Therefore, the issuance of bonus shares to be classified as income from other sources and collection of income tax on the same, would be unjustified in the eyes of law.

Limit of Tax – Free Foreign Remittance Increased Section 111(4)

Through the Bill, it has been proposed that the monetary limit of exemption for addition on account of an unexplained income or assets under Section 111 for foreign exchange remittance through banking channel has been increased from five million rupees to rupees equivalent to one hundred thousand US Dollars in a year.

Through the Finance Act, 2019, the FBR had brought an amendment almost for the very first time in the history of tax laws and practice in a country that if the foreign remittance crossed the limit of 10 (M) in a tax year, the same would become subject to the explanation to a tax officer. This was certainly a very necessary change which had always been a part of budgetary proposals made every year to FBR by various professional bodies to curb the illicit and untaxed money.

The current proposition for enhancement in tax free foreign remittance limit may be viewed in backdrop of the drastic devaluation of Rupee against Dollars, whereby the monetary limit of 5(M) rupee would be equivalent to mere 15k-16k dollars, which made the remittance in the country to a negligible level. The limit in Dollars terms, therefore, seems to be more realistic measure.

OTHER IMPORTANT CHANGES

Super Tax Section 4C

Through the Finance Act 2022, the Government introduced a new Section 4C in the Ordinance to impose Super Tax on high income earners at the rate of 4%. It was further provided, that the above 4% will increase to 10% in case of the following fifteen (15) industries;

1. Airlines
2. Automobile
3. Beverages
4. Cement
5. Chemicals
6. Cigarette and Tobacco
7. Fertilizer
8. Iron and Steel
9. LNG Terminal
10. Oil Marketing
11. Oil Refining
12. Petroleum & Gas Exploration & Production
13. Pharmaceuticals
14. Sugar
15. Textiles

Imposition of super tax was challenged before the Honorable Sindh High Court [SHC] which decided the matter in favor of the taxpayers. Tax department challenged the judgment of SHC before Supreme Court of Pakistan, which is subjudice before it.

Through the Bill, Super Tax has been proposed to be made applicable on all the taxpayers based on following uniform slab tax rates with the maximum rate of 10% for income exceeding Rs. 500 million.

Income	Existing		Proposed
	TY 2022	TY 2023	For Tax Year 2023 and onwards
0 – 150,000,000	0%	0%	0%
150,000,001 – 200,000,000	1%	1%	1%
200,000,001 – 250,000,000	2%	2%	2%
250,000,001 – 300,000,000	3%	3%	3%
300,000,001 – 350,000,000	4%	4%	4%
350,000,001 – 400,000,000	4%	4%	6%
400,000,001 – 500,000,000	4%	4%	8%
Above 500,000,000	4%	4%	10%

In addition to the above new slabs of rates, super tax has been proposed to be included under the purview of quarterly or monthly advance payment of tax under Section 147 of the Ordinance. The Bill also proposes that NCCPL shall compute and collect tax under section 4C on the amounts of capital gains along side the collection of normal capital gain tax.

Lastly the above slab rates and the enhancement of tax rates have been proposed to be applied with retrospective effect. We understand that inclusion of super tax amount in the computation of quarterly advance tax will have serious implication for the taxpayer coupled with the proposed amendment to apply it retrospectively. We understand that implication of this enhancement of rate with retrospective effect, will be subject to litigation considering the recent judgment of Honorable Sindh High Court, which was pronounced in favor of the taxpayer.

Upto 50% Income Tax Can be Inflicted on Unusual Profits

Section 99D

The Bill proposes to insert a new Section 99D in the Ordinance imposing additional tax up to 50% on unexpected income, profits or gains of any person or class of persons that arose on account of economic factors, whether or not disclosed in financial statements.

The Federal Government has been empowered to do the following through notification in official gazette:

- i. determine the economic factor or factors like international price fluctuation having bearing on any commodity in Pakistan or any sector of the economy or difference in income, profit or gains on account of foreign currency fluctuation;
- ii. provide the scope, time and manner of payment of the tax payable; and
- iii. exempt any person or class of persons, any income or classes of income from the application of this section.

It appears that the rationale for introducing the aforesaid measure is to arrest the adverse consequences resulting from untoward economic situation being faced lately. Many businesses have taken advantages of the same merely to their ruthless profiteering.

We understand that the amendment is particularly focused on commercial banks as to their unusual foreign exchange earning surfaced lately on the exporter of goods and services who have held their export proceeds outside Pakistan beyond a certain limit both in terms of percentage and time.

It however will be seen as to how the income would be reassessed once finalized either u/s 120 or 122 of the Ordinance. As to whether the Commissioner would be empowered for the same or would it be through other means.

Retrospective application of the change for Tax Year 2023 will have its legal challenges.

Changes in Minimum Tax Rate on Turnover Section 113(1)

The rate of minimum tax on turnover presently is 1.25%. This rate is applicable universally to all the taxpayers whether an individual business or association of persons provided their turnover exceeds one hundred (100) million annually or a company. Through the Bill, a reduced tax rate of 1% is proposed for listed companies.

For unlisted companies and others, it will remain @ 1.25%. It is important to note those listed companies and for that matter those unlisted companies and others, which are engaged in the businesses mentioned in the first three paras of the Schedule will remain subject to lower minimum tax on their turnover @ 0.25%, 0.5% and 0.75%, as the case may be.

Adjustment of Minimum Tax Credit Section 113(2)(c)

An explanation is proposed to be inserted in sub-section (2) of Section 113, whereby minimum tax credit under Section 113(2)(c) for excess minimum tax over actual tax liability under normal regime would be adjusted against normal tax liability of subsequent tax years and not against minimum tax and super tax liabilities of future tax years.

Taxpayers have been making adjustment of excess minimum tax against total tax liability in terms of phraseology used "Part I of the First Schedule to the Ordinance" which otherwise included minimum tax and super tax as well, which was never the intent of the law. After the aforesaid explanation, excess minimum tax would now be adjusted only against tax liability under normal tax regime.

It is now to be seen as to how the amendment by way of explanation will be unfolded in litigation after the taxpayers who have been taking the leverage of wording of the law, contest the same in terms of retrospective application of the amendment.

Small and Medium Enterprise Section 2(59A), Fourteenth Schedule and Exemption Clause (154) in Part I of the Second Schedule

The Bill has proposed to extend the definition of "Small and Medium Enterprise [SME]" introduced earlier through Finance Act 2021, as follows;

- Providing or rendering IT services or IT enabled services as prescribed under Section 2(30AD) and (30AE) of the Ordinance would qualify as SME.
- The cap on business turnover to qualify as SME has been increased from two hundred and fifty million rupees to eight hundred million rupees.

Additional tax slab has been proposed both in Rule 3 and Rule 4 of the Fourteenth Schedule for Normal Tax Regime [NTR] and Final Tax Regime [FTR], respectively.

Normal Tax Regime:

Sr No.	Category	Turnover	Prior Enactment of Act, 2023	After Enactment of Act, 2023
1.	Category-1	Upto Rs. 100 Million	7.5% of taxable income	7.5% of taxable income
2.	Category-2	Upto Rs. 250 Million	15% of taxable income	15% of taxable income
3.	Category-3	Upto Rs 800 Million		20% of taxable income

Final Tax Regime:

Sr No.	Category	Turnover	Prior Enactment of Act, 2023	After Enactment of Act, 2023
1.	Category-1	Upto Rs. 100 Million	0.25% of gross turnover	0.25% of gross turnover
2.	Category-2	Upto Rs. 250 Million	0.5% of gross turnover	0.5% of gross turnover
3.	Category-3	Upto Rs 800 Million		0.75% of gross turnover

Further, the Finance Bill has proposed under Rule 2 of the Fourteenth Schedule that to qualify as SME the registration with FBR on its IRIS web portal or Small and Medium Enterprises Development Authority on its SME registration portal [SMERP] is to be made. Whereas, SMEs related to IT services or IT enabled services would be required to be duly registered with SMERP and Pakistan Software Export Board.

Exemption of Agro Based Profit and Gain

Exemption Clause (154) of Part I of the Second Schedule has been proposed through the Bill related to Agro-Based SMEs wherein, Profits and gains of small and medium enterprise setup in a rural area for five years would be exempt from tax year 2024 to 2028.

It is worth mentioning that the term Agro-Based industry has not been defined under the Ordinance. Hence, a confusion may arise whether those industries that use agri products as raw material would or all industry working in agriculture falls under this exemption.

Concessionary Tax Rate for Exporter of IT Services restricted upto Tax year 2026

Section 154A

IT exports, IT services and IT enabled services have become a controversial subject and have been subjected to frequent changes and amendments during the last few years.

Through the Finance Act 2022, the 100% of tax credit against the tax liability had been done away with and in its place a concessional tax rate of 0.25% on exchange proceeds was introduced for IT exports, IT services and IT enabled services under final tax regime.

This Bill, now proposes to abolish the concessional rate of 0.25% after Tax Year 2026.

The proposed change would certainly impact on the growth of IT sector and decrease the foreign exchange remittance in future.

Condition of Filing of Sales Tax Return has been Done Away for Exporter of Services

Section 154A

Reduce tax rate of 0.25% on exchange proceeds is presently applicable for export of services, subject to the fulfillment of the following conditions:

- Return of income has been filed;
- Withholding statements for the relevant tax year have been filed;
- Sales tax returns under the Federal or Provincial laws have been filed;
- No credit for foreign taxes paid shall be allowed.

It is proposed to withdraw the condition for filing of sales tax returns under the Federal or Provincial laws.

We understand the above measure will exonerate the exporter of services from going through the rigmarole of getting the exemption certificate from provincial revenue boards, to be shown to the FBR, that they are factually not required to do so. The Officers on the other hand have always insisted on the same. The proposal to withdraw the aforesaid condition will act like a fresh breathe for service exporters.

Reduced Tax Rate for Youth Enterprise Clause 22 of Part III of Second Schedule

Clause 19 was earlier inserted in the Ordinance through the Finance Act, 2021, whereby reduced tax rate was made available for women enterprises to encourage women to do business. Through the Bill, youth has now been proposed to be encouraged to start business. This new welcoming concept has been named as 'youth enterprise' whereby tax incentive has been proposed to be granted in the shape of reduction of tax liability on their business income. It has been proposed that income tax will be reduced with the lower of 50% or Rs.2 million for Individuals / 'AOPs' and with the lower of 50% or Rs.5 million for companies.

The above benefit will be applicable for Tax Years 2024 to 2026.

"Youth enterprise" has been defined to mean a startup established on or after first day of July, 2023 either as a sole proprietorship concern owned by a youth individual or as an AOP all of whose members are youth or even a company whose hundred percent (100%) shares are held or owned by youth individual.

The startup should not be formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

The youth individual has been defined to mean a natural person up to the age of thirty (30) years as on first day of the commencement of the relevant tax year.

It has been provided that the benefit of lower tax for youth enterprise will not be applicable for "women enterprises" which are already entitled to the reduced rate by virtue of Clause (19) of Part-III of Second Schedule of the Ordinance.

Recovery of Liability Outstanding under Other Laws

Section 146D

A new Section 146D is proposed to be inserted in the Ordinance, whereby the Commissioner Inland Revenue is empowered to recover outstanding non- tax revenue under other laws.

By virtue of this proposed change, any amount owed by a defaulter to the Federal Government of Pakistan, which can be treated as income tax arrears under any law can be recovered by the Commissioner Inland Revenue as an income tax arrears.

The proposed amendment shifts the burden of recovery of the Government of Pakistan under other laws to the Commissioner, Inland Revenue, FBR.

Establishment of International Centre of Tax Excellence

Section 230J

The Bill proposes the establishment of an International Center of Tax Excellence. The proposed Institute would perform a variety of tasks, including tax policy formulation, research in tax administration and policy, international tax corporation, organization of seminars, workshops and conferences on international tax matters, capacity building of tax officials, improve designs and delivery of tax administration for maximizing for educational training revenue.

This is a much needed change for improving efficiency of taxation officers and developing professional attitude, which would expectedly result in reduction of unnecessary tax litigations.

Service of Notice/Order Personally is not Mandatory

Section 218

This section prescribes the manner in which a notice, or any other documents, are to be served on a taxpayer by tax authorities. Presently, it is mandatory for the tax officer to service the notice/order personally on the representative of the person in addition to service the same through registered post or electronically. This understanding has been endorsed by the judgement of Appellate Tribunal Inland Revenue [ATIR].

In order to nullify the ATIR judgement, the Bill has proposed to omit the word "or" occurring under Clause (b) of sub-section 2. Accordingly, it will no longer be mandatory to service the notice/order personally to the taxpayer and service of notice only electronically would be considered as service of notice/order to the taxpayer.

CHANGES RELATED TO WITHHOLDING PROVISIONS

A simple increase in withholding tax rates is an easy way out to fill the gaps in revenue targets is a known fact. The rates have not only been raised upwards, certain new transactions have been made liable for tax withholding. The proposed amendments are briefly discussed in the ensuing paragraphs.

Increase in Withholding Tax Rate on Commercial Importers

Section 148

Persons importing goods classified in Part-II of the Twelfth Schedule to the Ordinance are liable to advance tax collection on the clearance of imports @ 5.5% of the import value as increased by the duties and taxes. The Bill proposes to increase tax rate from 5.5% to 6%.

Re-imposing of Withholding Tax on Cash Withdrawals

Section 231AB

The Bill proposes to insert a new section 231AB in the Ordinance, whereby every banking company shall deduct tax at the rate of 0.6% on cash withdrawals exceeding amount of Rupees 50,000/- in a day from persons not appearing in the Active Taxpayers List (ATL).

This withholding tax was previously implemented vide Finance Act, 2005 but later abolished through the Finance Act, 2021. The Government aims to broaden the tax base and increase revenue collection by re-imposing of this withholding tax.

Increase in Withholding Tax Rate for Supplies of Goods, Services and Execution of Contracts

First Schedule, Part-III, Division III, Paragraph 1 & 3

The Bill has proposed, withholding tax rate on payment of goods supplied i.e. 153(1)(a), payment of Services i.e. 153(1)(b) and payment of execution of contract i.e. 153(1)(c) to be increased both in cases of corporate & non-corporate taxpayers. Illustration of the same is given below;

Category	Supplies of Goods				Services				Execution of Contract			
	Current		Proposed		Current		Proposed		Current		Proposed	
	Filer	Non - Filer	Filer	Non - Filer	Filer	Non - Filer	Filer	Non - Filer	Filer	Non - Filer	Filer	Non - Filer
Company	4%	8%	5%	10%	8%	16%	9%	18%	6.5%	13%	7.5%	15%
Other than Company	4.5%	9%	5.5%	11%	10%	20%	11%	22%	7%	14%	8%	16%
Reduced Rate for Specific 21 Services Sectors	-	-	-	-	3%	6%	4%	8%	-	-	-	-

Advance Tax on Foreign Domestic Workers

Section 231C

The proposed new section 231C of the Ordinance, pertains to the collection of advance tax of Rs.200,000/- from sponsor/agency/person by via issuing authority at the time of issuance of work permit/visa on employment of a foreign domestic worker.

This advance tax is adjustable for the relevant tax year on the income of the agency, sponsor, or employer.

Increase in Advance Tax Rate on Credit Card Payments

Section 236Y

The Bill proposes increase in advance withholding tax rate on foreign remittances through credit, debit or prepaid cards from 1% to 5%.

CHANGES IN EXEMPTION/TAX CREDIT

Tax Credit for Construction of House

Section 65I

It is proposed to introduce a new tax credit whereby an individual shall be entitled to a tax credit upto Tax Years 2024 to 2026 with regard to construction of a new residential house. The amount of tax credit shall be restricted to the lesser of:

- (i) 10% of tax for tax year; or
- (ii) one million rupees; and

In order to get benefit of such credit, the following conditions are to be met:

- a) Layout plan is approved by the concerned authority on or after the July 1, 2023.
- b) House is completed during the year and completion certificate is furnished alongwith return.

Exemption under Foreign Investment (Promotion and Protection) Act, 2022 [FIPPA]

Section 44A

The Finance Bill has proposed a new section about special exemptions for Reko Diq project under the First Schedule of the FIPPA. It is a corresponding amendment incorporated from Section 4 of the FIPPA, wherein tax on income, including capital gain, minimum and final taxes, and withholding taxes, would be exempted to the extent provided in Second and Third Schedule of the FIPPA.

Moreover, it is immune from Anti-Avoidance provisions specified in the aforesaid section as discussed supra, including Sections 106, 106A, 108, 109, and 109A of the Ordinance.

Further, the investors, shareholders, associates, and companies, including third-party lenders on account of any loan specified, shall also be exempt from taxes and other provisions of the Ordinance upto the extent provided in the Second and Third Schedule of the FIPPA.

It is important to be highlighted here that the rate of depreciation, initial allowance, and pre-commencement expenditure under Sections 22, 23, and 25 of the Ordinance as of 20th March, 2022 shall be applicable for thirty years as per the Third Schedule of the FIPPA.

Tax Exemption for Certain Charitable and Other Organizations

Clause 66 of Part I of Second Schedule

Through the Bill, the incomes of the following organizations are proposed to be exempted from income tax:

- The Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from the 5th of August 2022;
- Film and Drama Finance Fund;
- Export-Import Bank of Pakistan;
- Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi; and
- Shaheed Zulfikar Ali Bhutto Institute of Science and Technology.

Clause 150 of Part I of Second Schedule

Through the Bill, income derived by Alteraz Engineering Consultant is proposed to be exempted from income tax.

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Extension of Period for Tax Exemptions

Clause 99A of Part I of Second Schedule

Tax exemption is presently available on gain on sale of property or share of SPV to any type of RIET scheme for upto June 30, 2023. It is proposed to extend the exemption upto June 30, 2024.

Clause 145A of Part I of Second Schedule

Income of persons resident in Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan is presently exempt up to June 30, 2023. It is proposed to extend the exemption up to June 30, 2024.

Reduction in Tax Liability

Clause 21 of Part III of Second Schedule

Fixed tax regime was introduced for builders through the Finance Act, 2016, which abolished with effect from Tax Year 2018 and consequently, they are currently taxable under normal tax regime.

The Bill proposes reduction of tax liability by lower of 10% or Rs.5,000,000/- on profit and gains of a builder registered with Directorate General of Designated Non-Financial Business and Professions from a new building construction project for Tax Years 2024 to 2026.

Exemption from Specific Provisions

Clause 100 of Part IV of Second Schedule

The exemption available to the person not appearing in the Active Taxpayers List from the collection of advance tax on Insurance premium, is proposed to be withdrawn.

Clause 11A of Part IV of Second Schedule

Minimum tax on turnover under Section 113 is proposed to be exempt for the Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from August 05, 2022.

Clause 121 of Part IV of Second Schedule

The provisions of advance tax on profit on debt under Section 151 is proposed to be not applicable on the Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities with effect on and from August 05, 2022.

Clause 122 of Part IV of Second Schedule

The Bill proposes to exempt the Prime Minister's Relief Fund for Flood, Earthquake and Other Calamities from the provisions of withholding tax on telephones and internet users under Section 236 of the Ordinance with effect on and from August 05, 2022.

Clause 123 of Part IV of Second Schedule

The Bill proposes to exempt the import of specified goods under Section 148 of the Ordinance for a period of three months from December 01, 2022 for relief operation for flood effectees duly certified by the National Disaster Management Authority.

Clause 124 of Part IV of Second Schedule

The provisions of advance tax collection on import of tomato and onion under PCT heading 0702.0000 and 0703.1000 till December 31, 2022.

CHANGES IN TAXATION OF BANKS

Reduced Rate of Tax for Banks

Seventh Schedule – Rule 7D, 7E & 7F

Reduced rate of tax is presently applicable upto Tax Year 2023 for banking companies under Rule 7D of the Seventh Schedule relating to advances for micro, small and medium enterprises. Similarly, reduced rate of tax is applicable under Rule 7E for advances for low cost housing and Rule 7F for advances as Farm Credit. It has been proposed that such reliefs remain applicable for upto Tax Year 2025.

Seventh Schedule – Rule 7G

The Bills proposes reduced rate of tax of 20% for income derived by banks from additional advances provided by banks for IT and IT enabled services during Tax Years 2024 and 2025. Additional advances has been defined to mean average advances over and above the average advances made for past 3year.

Exemption for Non-Resident Banks

Seventh Schedule – Rule 8(4)

Profit on debt and capital gains from the Federal Government sovereign debt or sovereign debt instrument, derived by non-resident banking companies approved by the Federal Government under a sovereign agreement is proposed to be exempt. This comes as a major incentive for investments in gilts.

Enhanced Rate of Tax for Banks

Seventh Schedule – Rule 8(5)

Enhanced tax rates are presently applicable for banking companies under sub-rule (6A) of Rule 6C of the Seventh Schedule in respect of income attributable to investment in the Federal Government. It is proposed that such enhanced tax rate be abolished from Tax Year 2024

SALES TAX ACT, 1990

Production, Transmission, and Distribution of Electricity neither “good” nor “supply” Section 2(12) and 2(33)

In the recent past, Provincial Tax Authorities had notified “Electric Power Transmission Services” as taxable under their respective laws. This caused overlapping with Federal Government’s power for levy of sales tax on electricity as goods. To assert GOP’s jurisdictional claim, a phrase “production, transmission and distribution of electricity” was inserted in the definition of “goods” and “supply” under the ST Act vide Finance Act 2022. This created ambiguity regarding competence of Provincial Government to tax electric power transmission services.

The controversy has been resolved by National Tax Council with the consensus that “transmission of electric power” is to be treated as service and will be under exclusive domain of Provincial Tax Authorities. Accordingly, the phrase “production, transmission and distribution of electricity” has now been omitted.

TIER-1 Retailer Section 2(43A)

Vide Finance Act 2022, the scope of TIER-1 Retailer was enlarged by inclusion of “retailer of jewelry sector” having shop area of 300 Square Feet or more. Since then, aforesaid retailers were required to seek registration and comply with allied provisions of the ST Act. However, in this budget, it has been proposed that said clause may be omitted from the definition of TIER-1 Retailer.

Further to above, it is also proposed to exclude retailers having shop of 1000 square feet or more from the ambit of TIER-1 retailer, if they do not fall in any of the other conditions prescribed under the clause 43A of Section 2 of the ST Act.

We understand that after such exclusion, these retailers shall be charged sales tax through their monthly electricity bills at specified rates in terms of Section 3(9) of the ST Act.

Penalties

Section 33(23)

Presently, penalties have been prescribed for cigarette manufacturers who fail to comply with requirements of monitoring through electronic means. Now the scope of such provision is proposed to be broadened to include manufacturers of other specified goods as well.

ZERO RATING – Fifth Schedule Supplies to Reko Diq Project Serial # 8A

The bill seeks to insert a new entry whereby imports or supplies made by for, or to Reko Diq Mining Company (Private) Limited shall be zero rated for a period of 30 years from the mineral agreement effective date.

Export Facilitation Scheme Serial # 21

The word “commodities” is proposed to be inserted in local supplies of goods to registered exporters authorized under the Export Facilitation Scheme, 2021. The apparent intention of the legislature intends to extend the benefit of zero rating to indirect inputs as well.

Stationary Serial # 12

The bill seeks to substitute description of clause (xxv) of Serial no. 12 meant for zero rating of “geometry boxes” to harmonize it with respective PCT code description which is “9017.2000-Other drawing, making out or mathematical calculating instruments (geometry boxes).

EXEMPTIONS – Sixth Schedule Rescission of Exemption on Bulk Supply of Foods Items sold under Brand Name Table -1

By virtue of the proposed measures, tax exemptions have been restricted to following goods without involvement of a brand name. Previously, exemption was available to bulk imports and supplies whether a brand name was attached to such goods or not.

Table 1 – Import and Supply

- Red Chillies
- Ginger
- Turmeric

Table 2 – Supply

- Yoghurt, Butter, Desi Ghee, Cheese.
- Fish, crustaceans,
- Products of meat, meat offal
- Meat of bovine animals, sheep, goat and uncooked poultry meat.

To our mind, the proposed amendment will put organized sector engaged in supply of such goods in a competitive disadvantage vis.a.vis trader from undocumented sector which largely operate without having any trademarks /brand names.

Exemption of Import and Supplies in FATA / PATA Extension of Time Limit

Tax exemption on supply of electricity to tribal areas, local supplies and imports of plant and machinery to be installed in the tribal areas was available up to 30 June 2023 which is proposed to be extended up to 30 June 2024.

New Exemptions: Table-1 Sixth Schedule

Importation and local supply of following goods have been proposed to be inserted in Sixth Schedule:

- Contraceptives and accessories thereof
- Bovine Semen
- Saplings
- Agricultural machinery such as combined harvesters -threshers, dryer, No till direct seeder and planters, transplanters and other planters
- Specified IT equipment such as laptops, personal computers, mouse, CD rom drives, hard disk drives etc by software exporters registered with the Pakistan Software Export Board (PSEB) subject to fulfilment of certain conditions.

REDUCED RATE SUPPLIES- Eighth Schedule

Rate of Tax on Supplier by Tier-1 Retailers of Textile and Leather articles Entry-66

The POS integrated Tier-I Retailers supplying articles of textile and leather who were subject to 12% sales tax are now proposed to be subjected to sales tax @ 15%.

Alternative Medicines, Medicaments and Excipients

Prior to 15th January 2022, the drugs registered under Drugs Act, 1976 or medicaments as classified under Chapter 30 of the First Schedule to Customs Act, 1969, as well as, the raw materials for basic manufacture of APIs and pharmaceutical products with certain exceptions were exempt under Sixth Schedule to the Sales Tax Act, 1990 [ST Act]. However, such exemptions were withdrawn by virtue of Finance (Supplementary) Act, 2022 and pharmaceutical products and medicaments were brought to zero rate of sales tax under Fifth Schedule to ST Act whereas raw materials were subject to standard rate of tax.

Later, vide Finance Act, 2022, such zero rating on pharmaceutical goods was converted to reduced rate tax regime with tax at rate of 1% without input tax adjustment right by virtue of a new entry; Serial No. 81 and 82; under Eighth Schedule of the ST Act.

However, during the transition from exemption to reduced rate regime the medicaments falling under chapter 30 of the Customs Act, 1969 and excipients were kept out of the concessional regime and consequently exposed to the standard Sales Tax. This did not sail well with the stakeholders and most of the manufacturers continued to pay sales tax on such products under concessional regime under an impression this is an anomaly to be corrected on part of the Government.

Now, the respective entries in Eighth Schedule of the ST Act have been substituted in a way that reduced rate regime is now available to all the goods/products covered in the erstwhile exemption under the Sixth Schedule to the ST Act as if it has always been available to them i-e with retrospective effect from 1 July 2022.

ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Relief measures for IT Sector

Section 3(2A) (a), Serial No. 11 of the Table-1 & Serial No. 11 of TABLE 2

To promote the export of IT services, the government has put forth an amendment in ICT Ordinance aiming to provide freelancers exporting IT services identical benefits as are being enjoyed by the cottage industry under the ST Act. Such a benefit would be available to freelance exporters with an annual turnover below Rs. 8 million whereby freelance exporters will be exempted from sales tax, registration and other compliances related thereto under the ST Act.

To provide clarity, the bill introduces a definition for "freelance exporter" as an independent professional who works on a project basis, without formal employment by any other entity.

IT and IT enabled Services

Table -1 & Table-2 of Schedule

The benefit of concessional rate of 5% presently available to entire services taxable under the Tariff Heading 9815.6000 i.e., Services provided by software or IT based development consultants are now proposed to be restricted to the extent of IT and IT enabled Services. Accordingly, the position of law, as it stood before June 2022, has again been restored.

However, there is a longstanding controversy regarding the scope of such services; accordingly it can be contested that unless IT and IT enabled services are not covered under specific Tariff Heading under Table -1 of the Schedule, it could not be taxed through independent insertion under Table-2 of the Schedule.

THE SCHEDULE

Serial No. 1 of the Table-1

Currently, services provided by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers, suppliers of food and drinks are subject to ICT Tax @ 15%. The bill proposed to categorize the above services in to two categories:

Category A:

Services Provided by Hotels, Motels, Guest Houses, Farmhouses, Marriage Halls, Lawns, Clubs & Caterers, which are still proposed to be taxed at 15%.

Category B:

Services provided by restaurants including cafes, food parlors, coffee houses & shops, Deras, food huts, eateries, resorts, and similar food service providers are proposed to be taxed @ 5%, provided that bill is settled through debit / credit cards, mobile wallets, or QCR scanning. On the other hand, in case of cash transaction, the tax rate will remain @ 15%. We understand that this condition aims to encourage the use of digital payment methods. Punjab Revenue Authority also mirrors similar measures to promote digital payment initiatives for this industry.

Services to the person engaged in the Rekodiq Project

Section 3 (2A) (b)

Likewise, exemptions / zero rating under Income Tax Ordinance, 2001 and Sales Tax Act, 1990, it is proposed to provide zero rating on services provided to persons engaged in the Rekodiq mining project.

Electric Power Transmission Services Serial No. 60 Table-1 of The Schedule (New insertion)

In line with consensus reached through National Tax Counsel with respect to taxability of Electric Power Transmission Services" as discussed in this Tax Memorandum, a new entry has been proposed to be introduced in the Table -1 of the Schedule to the ICT Ordinance to tax such services provided or rendered in Islamabad Capital Territory.

FEDERAL EXCISE ACT, 2005

Duties Specified in First Schedule to be levied

Section 3(1) (e)

Section 3 specifies various aspects for levy of Federal Excise Duty (FED) in relation to specified goods and services. The Finance Bill proposes to insert Clause (e) whereby 'any item specified in the First Schedule' in Section 3 of Federal Excise Duty Act 2005 (FED Act) will also be exposed to FED. Consequent to such proposed amendment, scope of FED is intended to be enlarged beyond manufacturing, import and rendering of services. To our mind, the proposed amendment seeks to cater the activity of distribution and supply chain which is presently subjudice before the apex court. The Federal Government could be preparing to counter any eventuality should the apex court hold that distribution is a service and is outside the ambit of Sales Tax Act 1990.

Appointment of Federal Excise Officer and Delegation of Powers

Section 29(2) (d)

By virtue of Finance Bill, Clause (d) has been inserted at Section 29 which deals in introduction of "Directorate General of Digital Initiatives" which will look into digital and allied matters of FBR and taxpayers through its designated officers. The concept of 'Directorate General of Digital Invoicing and Analysis' as introduced through Finance Act 2022, is now proposed to be renamed as "Directorate General of Digital Initiatives".

Power of Board to Make Rules Section 40(4)

Section 40 empowers FBR to make rules for the purpose of implementation of FED Act which include charging fee for processing of returns and claims; circulation of documents etc. Sub-section (4) proposes procedure to arrange and publish such rules along with general orders and departmental instructions at FBR's website or and circulation thereof for public which involved element of fee or otherwise. Identical provision exists under Section 50 of ST Act.

First Schedule: Table - I

Imposition of FED on Goods

S. No	Excisable Goods	FED
1.	Energy inefficient fans both locally manufactured and imported which do not comply with MEPS, notified by PSQCA	Rs. 2,000/- per fan
2.	Incandescent bulbs - locally manufactured or imported	20% ad valorem

Third Schedule: Table - I & II

Exemption of Federal Excise Duty on Goods & Services

- Import or supplies on excisable goods as are provided under Rekodiq Project
- Excisable services provided under Rekodiq Project

First Schedule: Table -II

Levy of FED on Royalty & Technical Services

The Bill proposes to insert the term "royalty and fee for technical services" at First Schedule to the FED Act. We understand "franchise" has already been defined under the FED Act which covers royalty and fee for technical services. Hence, apparently there was no need and hence there is no extension of scope of FED upon such services. However, the proposed amendment may have been introduced to counter or cater any legal issue which might have been arisen with respect to the definition of franchise via.a.vis levy of FED on royalty and technical fee.

CUSTOMS ACT, 1969

Definition of Smuggle

Section 2, Clause (s)

The definition of 'smuggle' is proposed to be amended to include the expression "anywhere within the territorial jurisdiction of Pakistan".

The revised definition of 'smuggle' will now encompass any location within Pakistan's territorial jurisdiction. This change aims to empower Customs authorities to effectively combat smuggling operations nationwide. The amendment highlights the government's commitment to curbing illegal trade and protecting national interests.

Assistance to the Customs Officers

Section 7

It has been proposed to add 'Provincial Levies and Khasadar Force' to the list of Government agencies.

The Proposed changes to the Custom Act, 1969, seek to enlist 'Provincial Levies and Khasadar Force' as government agencies obligated to support Customs officers in their duties, including anti-smuggling operations in Khyber Pakhtunkhwa and Baluchistan. This amendment aims to enhance collaboration and strengthen efforts against smuggling in these regions.

Power To Exempt Goods

Section 19

The proposed amendment aims to expand the powers of the Federal Government to grant exemptions on Customs duties. The extension of these powers will now include exemptions for the implementation of agreements between the Government of Pakistan and an entity. This amendment facilitates the smooth execution of government agreements and fosters collaboration with various entities.

Validation of Notifications

Section 19(5)

The proposed change suggests extending the validity of exemption notifications issued after 01 July 2016, and awaiting ratification from the National Assembly. The extension will move the deadline from 30 June 2023 to the next fiscal year, ending on 30 June 2024.

Power To Determine Customs Value

Section 25A

An amendment has been suggested to harmonize the powers of the Director of Customs Valuation with the 'World Trade Organization Valuation Agreement.' Currently, the Director can directly adopt customs values from internationally recognized sources, including publications, periodicals, and official websites. The amendment proposes that the Director may consult these sources for valuation purposes, ensuring compliance with international standards. This adjustment reflects the government's commitment to aligning customs practices with global trade regulations.

Filing Goods Declaration For Home Consumption

Section 79

To alleviate congestion at border Customs stations, the owner of imported goods has been obliged to file the Goods Declaration within three days of the goods' arrival at the border customs station. This adjustment seeks to streamline the customs process and facilitate smoother clearance procedures. The amendment underscores the government's commitment to enhancing efficiency and reducing delays at border checkpoints.

Warehousing Period of Notified Goods

Section 98

To facilitate trade and provide flexibility, warehousing period for perishable items has been enhanced from one month to three months. This adjustment accommodates the needs of businesses dealing with perishable goods, promoting smoother logistics and trade operations.

Penalties

Section 156

Penalties associated with certain non-compliances have been modified. Penalties for the non-placement of invoices / packing lists inside import containers or consignments are proposed to be abolished.

Additionally, penalties related to the failure to attach or electronically upload mandatory documents with Goods Declarations are proposed to be capped at Rs 50,000, as opposed to the existing range of Rs. 50,000 to Rs 250,000.

Furthermore, penalties for offenses such as smuggling of essential commodities, contravention of import / export restrictions, dealing with smuggled goods, or unlawful removal of goods from a warehouse are currently imposed based on the value of goods without a minimum threshold. To strengthen these penal provisions, a proposed amendment suggests introducing a minimum threshold of penalty, set at the value of the goods.

These proposed changes aim to strike a balance between enforcing compliance and addressing trade concerns, while ensuring that penalties are proportionate and stringent.

Adjudication Power

Section 179

Now respondents have been granted a choice of adjudication through the Customs computerized system. The amendment would apply to specific goods and offenses, as determined by the Federal Board of Revenue and notified accordingly.

Vesting Confiscated Property

Section 182

Under the current provisions of the Custom Act, 1969, FBR has the authority to allow Customs officials to utilize confiscated vehicles for operational needs. A proposed amendment now seeks to extend this authority to include confiscated conveyances and other useful equipment. This expansion empowers officials to employ such assets for operational purposes, including anti-smuggling operations.

Appeal To The Appellate Tribunal

Section 194A

The proposed amendment aim to introduce provisions allowing appeals against appellate or quasi-judicial orders issued by the Chief Collector of Customs before the Appellate Tribunal. The proposed appeal process will be heard by a specialized bench comprising one technical member and one judicial member.

Advance Ruling

Section 212B

Currently, applicants may seek advance rulings regarding the applicability of notifications related to duties under clause (iii) of section 212B (2) of the Custom Act, 1969. However, a proposed amendment, omitting clause (iii), from this section suggests withdrawing this option, citing that matters involving statutory interpretation fall within the jurisdiction of the FBR and are not covered under advance rulings.

This change aims to redefine the scope of advance rulings, focusing on areas outside the purview of statutory interpretation.

First Schedule To The Customs Act

- Customs Duty on the following proposed to be rationalized:

PCT code	Description	Existing %	Proposed %
2710.1995	Liquid paraffin	3	0
2849.1000	Carbides of calcium whether or not chemically defined	3	11
3206.4100	Ultramarine and preparations based thereon	16	11
3823.7000	Industrial fatty alcohols	16	11
3920.4910	Polyvinyl Chloride (PVC) Rigid film	20	16
3920.9900	Plates, sheets, films, foils and strips of plastics	20	16
4805.2500	Testliner (recycled liner board) weighing more than 150 g/ m ²	20	16
4805.9190	Other uncoated paper or paperboard weighing 150 g / m ² having di-electric strength less than 0.5 Kv per millimeter	20	16
4806.2000	Greaseproof papers	20	16
8421.9990	Centrifuges, including centrifugal dryers filtering or purifying machinery and apparatus for liquid or gases	20	16
8503.0020	Parts for use with the machines of headings 8501.5340, 8501.5390, 8502.1110, 8502.1390 & 8502.2000	11	3

- Customs Duty applicable on import of in aqueous solution (soda lye or liquid soda) @ Rs 4,000 per metric ton is proposed to be levied @ 16% ad valorem.
- In addition to above, changes have been made in various PCT headings as well as description to rationalise the duty structure.

Fifth Schedule To The Customs Act Exemption

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

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

Exemptions already provided are proposed to be extended as under:

- import of specified goods by industries setup in erstwhile FATA areas extended to June 30, 2024; and
- import of Flavouring powders for food preparation till June 30, 2024.

Reduction in Customs Duty

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

Description	Existing %	Proposed %
PET scrap, if imported for the manufacture of polyester filament yarn	20	11
Import of specified raw materials / inputs by manufacturers of Capacitors	16	5

The Bill proposes reduction in the assessed value of the IT related equipment, for the purpose of levying customs duty in case of imports by the software exporters registered with Pakistan Software Export Board subject to certain conditions. The reduction is proposed to be capped at 1% of the export proceeds of the previous financial year cumulatively on an annual basis.

Pharma Industry

- Exemption from customs duty has been proposed on import of Active Pharmaceutical Ingredients (APIs) Dextrose Anhydrous Injectable Grade (Pyrogen Free) USP, whereas concession provided to Moxifloxacin is proposed to be withdrawn.
- Exemption from customs duty on import of following drugs is proposed:

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

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

Automobile Sector

- The Bill proposes certain amendments to streamline the concessions provided for electric vehicles in line with the Auto Industry Development and Export Policy (AIDEP) 2021-2026.
- There are no changes in the rates of customs duties on import of hybrid electrical vehicles and parts of hybrid electric vehicles and plug-in hybrid vehicles however certain additional conditions are proposed.
- Reduction in customs duty at 1% prescribed for fully dedicated LNG, LPG and CNG buses (CBU) is proposed to be withdrawn.



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