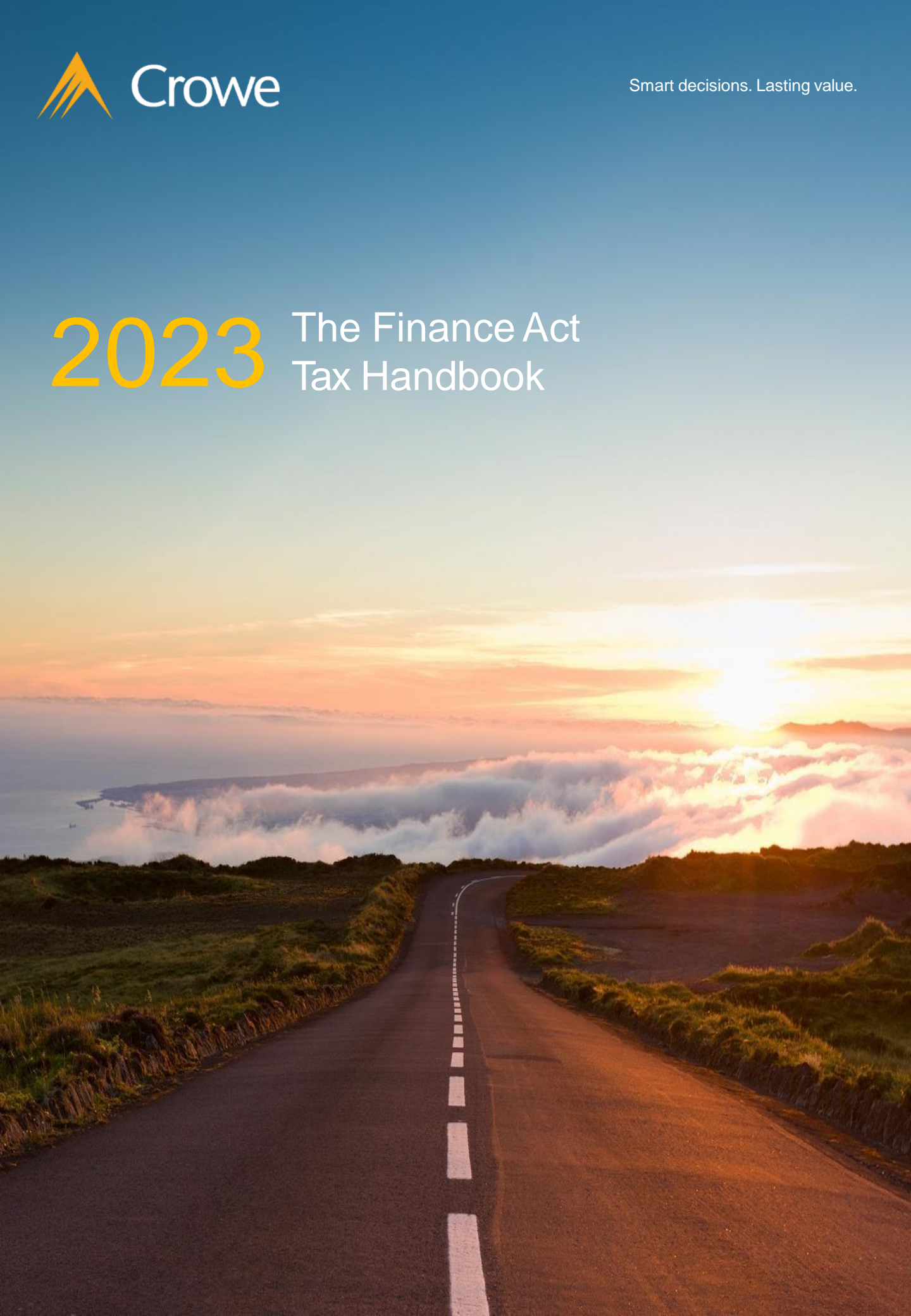




Smart decisions. Lasting value.

2023 The Finance Act Tax Handbook





Tax Handbook 2023
An Information Guide

Preface

In addition to important Income Tax and Sales Tax amendments, this Handbook encompasses the updated compliance requirement and timelines, the tax planning guide, tax facts and withholding tax rates. The applicable amendments in the laws are effective from July 1, 2023 unless otherwise specified.

The Tax Handbook should be read in conjunction with the applicable sections of respective Ordinances, Acts and Rules along with the text of the Finance Act, 2023. This Handbook aims to provide a general guideline and thus should not be considered as a conclusive and enforceable document. A professional advice should be sought before acting on any newly introduced amendment in the Laws or on our comments. We trust that this Tax Handbook enhances your perception of the Finance Act, 2023.

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Although, the best efforts have been made to ensure accuracy of the information in this Tax Handbook, any errors and omissions are regretted.

Lahore

July 10, 2023

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Income Tax Ordinance, 2001

Income Tax Ordinance, 2001

Scope of Permanent Establishment (PE) Widened

(Section 2(41))

The Finance Act, 2023 has omitted the word “fixed” from the definition of Permanent Establishment (PE) thereby broadening the scope of definition of PE for non-resident entities. It envisages a foreign entity carrying on business in Pakistan even without distinct place of business would be deemed to have a PE in Pakistan.

Furthermore, any virtual business presence in Pakistan including any company with the intention of conducting business via internet or through any electronic medium, regardless of whether the company has any physical presence in Pakistan, will also be treated as Permanent Establishment.

Graduated Super Tax Rate Enhanced

(Section 4C, 147)

Super tax on high earning persons is charged at the rates prescribed. The Finance Act, 2023 has increased the rate of super tax as per the table below:

Description	Previous Rate of Tax	Current Rate of Tax (for Tax Year 2023 and Onwards)
Where income does not exceed Rs. 150 million	0%	0%
Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1%	1%
Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2%	2%
Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3%	3%
Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4%	4%
Where income exceeds Rs. 350 million but does not exceed Rs. 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%

The provisions of Section 4C and 147 are streamlined by making the persons paying Super Tax to discharge their quarterly advance tax liability accordingly.

Scope of Section 7E Broadened for Non-Active Taxpayers***(Section 7E)***

In accordance with the provisions of Section 7E of the Income Tax Ordinance, 2001, tax @ 1% of fair market value of the property is charged with certain exclusions. The Finance Act, 2023 has now prescribed that the persons not appearing in Active Taxpayer List (ATL) shall not be entitled to the following exclusions for imposition of this tax on the deemed income:

- one capital asset owned by the resident person
- any property from which income is chargeable to tax under the Ordinance and tax leviable is paid thereon
- capital asset in the first tax year of acquisition where tax under section 236K has been paid;
- where the fair market value of the capital assets in aggregate does not exceed Rupees twenty-five million

Cash Salary Threshold Rationalized***(Section 21(m))***

Earlier on, salary exceeding Rs. 25,000 paid otherwise through crossed cheque or banking channel was treated as an inadmissible expense. The Finance Act, 2023 has increased this threshold limit of admissible business expense on account of payment of salary from Rs. 25,000 to Rs. 32,000 per month.

Taxability of Capital Gains on Disposal of Securities***(Section 37A)***

Capital gain on sale of securities is chargeable to tax under Section 37A of the Income Tax Ordinance, 2001 where holding period is reckoned to ascertain the tax liability. However, by virtue of the Finance Act, 2023, total amount of gain on disposal of following securities shall be chargeable to tax irrespective of holding period:

- Shares of a listed company, if traded outside a registered stock exchange and not settled through NCCPL
- Disposal of shares through an initial public offering during the listing process, provided that details of such disposal are furnished to NCPPL for the computation of capital gains and tax thereon

Definition of 'Associates' Streamlined***(Section 85)***

The Finance Act, 2023 has streamlined the definition of Associates to make it more comprehensive in the following manner:

- one person sufficiently influences, either alone or together with an associate or associates, the other person; or
- one person enters into a transaction, directly or indirectly, with the other who is a resident of jurisdiction with zero taxation regime.

Income Tax Ordinance, 2001

Two persons shall be treated as sufficiently influencing each other, where one or both persons 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

Additional Tax on Certain Incomes, Profits and Gains

(Section 99D)

The Finance Act, 2023 has imposed an additional tax for any of the preceding three tax years from Tax Year 2023 and onwards on any corporate person who has any income arising from any exogenous or economic factor that resulted in unexpected and extraordinary income, whether or not disclosed in the financial statements as determined and notified by the Federal Government.

The Federal Government may assess economic factors such as international price fluctuations affecting any commodity price in Pakistan or any sector of the economy, as well as differences in revenue, profit, or profits due to foreign currency fluctuations.

The Federal Government may also provide the rate not exceeding fifty percent of such income.

Recovery of Liability Outstanding under Other Laws

(Section 146D)

Where any outstanding liability stands payable under any other statute or law for the time being in force, in respect of any defaulter, such default shall be treated as Income Tax arrears in that law.

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

Exemption Issuance Process Automated for Non-residents

(Section 152)

A person intending to make a payment to a non-resident person without deduction of tax under section 152 of the Income Tax Ordinance, 2001 shall apply to the Commissioner for exemption certificate and Commissioner is bound to issue the order on exemption application within 30 days of filing of the application.

The Finance Act, 2023 has prescribed that exemption certificate shall be deemed to have been issued upon the expiry of thirty days and the certificate shall be automatically processed and issued by IRIS subject to the condition that days taken for adjournment by the applicant shall not be considered while computing the said period of thirty days.

Exporters Registered Under Export Facilitation Scheme, 2021

(Section 154)

Payments made to indirect exporters against firm contracts are subject to deduction of tax @ 1%. The Finance Act, 2023 has included the exporters registered under Export Facilitation Scheme, 2021 under the ambit of withholding agents for payment made to indirect exporters.

The persons supplying goods to exporters registered under the Export Facilitation Scheme, 2021 shall also be charged at 1% rate of tax under FTR category.

Waiver from Filing of Sales Tax Returns for Exporters of IT and IT Enabled Services
(Section 154A)

Earlier on, the concept of “Export of Services” was introduced by virtue of the Finance Act, 2021 to bring exporters of services under the Final Tax Regime (FTR) category subject to at-source tax collection @ 1%. However, the entitlement of availing such simplified regime is subject to fulfilling the condition that income tax and sales tax returns have been filed.

In order to further boost the export of IT and IT enabled services, the Finance Act, 2023 seeks to relax the condition of filing of provincial and Federal sales tax returns for exports of computer software or IT services or IT enabled services registered with and duly certified by the Pakistan Software Export Board (PSEB).

Concept of “International Centre of Tax Excellence” Introduced
(Section 230J)

In order to increase the efficiency of the Federal Board of Revenue (the Board) and rationalize the tax systems of the country, an Institute of “International Centre of Tax Excellence” will be established to develop tax policy, prepare model national tax policy, deliver interdisciplinary research in tax administration and policy, international tax cooperation and revenue forecasting.

This Institute will also be responsible to conduct international seminars, workshops and conferences on the current issues faced by the 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 maximising revenue within existing provisions to close the tax gap or any other function as directed by the Board or the Federal Government.

Advance Tax on Cash Withdrawal for Non-Active Taxpayers
(Section 231AB)

Earlier on, advance tax on cash withdrawal was abolished by virtue of the Finance Act, 2021. It has been re-introduced for non-active taxpayers by imposing tax @ 0.6% on cash withdrawal, exceeding Rs. 50,000 in aggregate per day, by a person whose name is not appearing in the active taxpayers’ list (ATL).

Advance Tax on Foreign Domestic Workers
(Section 231C)

The Finance Act, 2023 has inserted a new provision where advance tax of Rs. 200,000 per employee shall be collected from any agency, sponsor or a person, seeking to employ any foreign national as a domestic servant. This advance tax shall be collected at issuance and renewal of domestic aide visa for any such foreign national.

Evidence of Section 7E Tax Liability Mandatory for Transfer of Immovable Property
(Section 236C)

The Finance Act, 2023 has imposed a restriction on every person responsible for registering, recording, or attesting the transfer of immovable property unless the seller or transferor has discharged tax liability under Section 7E and furnished the evidence in the prescribed mode, form, and manner.

Tax on Bonus Shares Introduced***(Section 39, 236Z)***

The Finance Act, 2023 has included the bonus shares under the ambit of “Income from other Sources” and to charge tax @ 10% of the value of bonus shares issued. Tax paid @ 10% shall be final tax on this income. Procedure for collection and payment of tax on bonus shares is prescribed as under:

Company issuing bonus shares shall be responsible to deposit tax @ 10% of the value of shares issued within fifteen days of closure of books, whether or not tax has been collected from the shareholders. However, the company is entitled to recover this tax from the shareholders through the prescribed procedure explained as under:

- The company while issuing bonus shares shall withhold 10% of the value of shares issued
- The shares withheld shall only be issued upon collection of tax by the company @ 10% of the value of the bonus shares issued to the shareholder
- Value of bonus shares shall be determined on the basis of day-end price on the first day of closure of books in the case of listed company and the value as prescribed in case of other companies
- If a shareholder neither makes payment of tax to the company nor collects its bonus shares within 15 days, the company may proceed to dispose of its bonus shares to the extent it has paid tax on its behalf
- Tax collected by a company or proceeds of the bonus shares disposed of and paid under this section shall be treated to have been paid on behalf of the shareholder

Tax Planning Guide

Income Tax Ordinance, 2001

Compliance Requirement and Deadlines

What Year End Can a Taxpayer Adopt?

Person	Tax Year Type	Year End
Companies, AOPs and Individuals	Normal Tax Year	July 01 to June 30
Sugar	Special Tax Year	October 01 to September 30
Banking and Insurance Companies	Special Tax Year	January 01 to December 31
Ginners, Rice Huskers, Oil Mills	Special Tax Year	September 01 to August 31
Shawl Manufacturers	Special Tax Year	April 01 to March 31

When to File the Return of Income?

Status	Year End	Date of Filing	Tax Year
Salaried Individual & Non-corporate Taxpayer (falling under FTR)	June 30, 2023	September 30, 2023	2023
Other Individuals & AOPs	June 30, 2023	September 30, 2023	2023
Company (including falling under FTR)	June 30, 2023	December 31, 2023	2023
Company	September 30, 2023	September 30, 2024	2024
Company	December 31, 2023	September 30, 2024	2024

When to Pay Advance Tax by an AOP or Company?

Period	Quarter	Payment Date
1 st July to 30 th September	September Quarter	On or before the 25 th of September
1 st October to 31 st December	December Quarter	On or before the 25 th of December
1 st January to 31 st March	March Quarter	On or before the 25 th of March
1 st April to 30 th June	June Quarter	On or before the 15 th of June

Individuals have to pay advance tax within 15 days after the close of each quarter.

Who is Required to Pay Advance Tax?

- Every business individual whose latest assessed taxable income excluding the presumptive tax income is Rs. 1,000,000 or more
- Every Association of Person
- Every Company

Individual and Corporate Tax Planning Guide

Initial and First Year Allowance

- The rate of initial allowance under Section 23 shall be 25% for plant and machinery.
- The rate of first year allowance under Section 23B shall be 90%.
- From July 1, 2022, 100% depreciation will be allowed in the year of purchase.

Tax Depreciation Rates

Description	Rate
Building (all types)	10%
Furniture (including fittings) and machinery and plant (not otherwise specified), Motor vehicles (all types), ships, technical or professional books	15%
Computer hardware including printer, monitor and allied items, machinery and equipment used in manufacture of IT products, aircrafts and aero engines	30%
In case of mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part-I of the Fifth Schedule: <ul style="list-style-type: none"> • Offshore platform and production installations 	20%
A ramp built to provide access to persons with disabilities not exceeding Rs. 250,000 each	100%

Allowances and Tax Credits

Sec	Particulars	Benefit	Limit
60	Zakat	Deductible Allowance	N/A
60A	Workers' Welfare Fund	Deductible Allowance	N/A
60B	Workers' Participation Fund	Deductible Allowance	N/A
60D	Education Expenses	Deductible Allowance (Subject to maximum taxable income of individual for claiming deductible allowance is Rs. 1,500,000)	Lower of: <ul style="list-style-type: none"> • 5% of the total tuition fee paid by the individual • 25% of the person's taxable income for the year; and • An amount computed by multiplying Rs. 60,000 with number of children of the Individual.

Income Tax Ordinance, 2001

Sec	Particulars	Benefit	Limit
61	Charitable Donations	Tax Credit	<p>Tax Credit: (A/B)*C A= Assessed amount of tax for the year before any tax credit. B= Taxable income for the year. C= Lower of:</p> <ul style="list-style-type: none"> • Total amount of person's donations during the year or • 30% of taxable income in case of individual and AOP or • 20% of taxable income in case of company • In case of Donation to Associate 1. 15% of taxable income in case of individual and AOP. 2. 10% of taxable income in case of company.
63	Approved Pension Fund	Tax Credit	<p>Tax Credit: (A/B)*C A= Assessed amount of tax for the year before the allowance of tax credit under this section. B= Taxable income for the year. C= Lower of:</p> <ul style="list-style-type: none"> • The total contribution or premium paid or • 20% of the person's taxable income
64B	Employment Generation by Manufacturers	Tax Credit	2% of tax payable for every 50 employees registered with The Employees Old Age Benefits Institution or the Employees Social Security Institutions of Provincial Governments subject to maximum of 10% of tax payable
64D	Point of Sale (POS)	Tax Credit	<p>Credit shall be lower of;</p> <ul style="list-style-type: none"> • Amount actually invested in purchase of point of sale machine. • 150,000 per machine.
65E	Industrial Undertakings Established Before July 01, 2011	Tax Credit	<p>Tax Credit: A* (B/C) A= Assessed amount of tax for the year or B= Equity raised through issuance of new share for cash consideration or C= Total amount invested</p>
65F	Coal Mining Projects and Startup	Tax Credit	100% Tax Credit upon fulfillment of conditions
65G	Specified Industrial Undertakings.	Tax Credit	25% of the eligible investment

Rate of Tax for Individual and AOP

The rates of tax imposed on the taxable income of every individual and AOP shall be as set out in the following table:

Income Brackets	Rates
Taxable income not exceeding Rs. 600,000	NIL
Taxable income exceeding Rs. 600,000 but not exceeding Rs. 800,000	7.5% of the amount exceeding Rs. 600,000
Taxable income exceeding Rs. 800,000 but not exceeding Rs. 1,200,000	Rs. 15,000 + 15% of the amount exceeding Rs. 800,000
Taxable income exceeding Rs. 1,200,000 but not exceeding Rs. 2,400,000	Rs. 75,000 + 20% of the amount exceeding Rs. 1,200,000
Taxable income exceeding Rs. 2,400,000 but not exceeding Rs. 3,000,000	Rs. 315,000 + 25% of the amount exceeding Rs. 2,400,000
Taxable income exceeding Rs. 3,000,000 but not exceeding Rs. 4,000,000	Rs. 465,000 + 30% of the amount exceeding Rs. 3,000,000
Taxable income exceeding Rs. 4,000,000	Rs. 765,000 + 35% of the amount exceeding Rs. 4,000,000

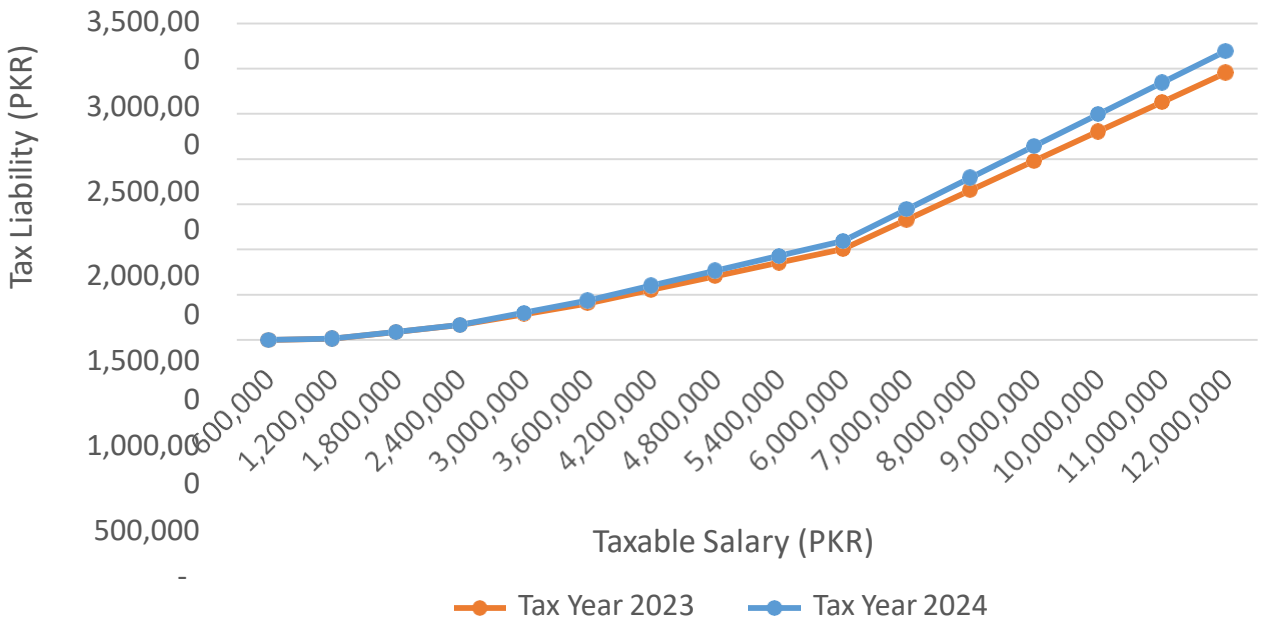
Rate of Tax for Salaried Individual

The rates of tax imposed on the taxable income of every salaried individual shall be as set out in the following table:

Income Brackets	Rates
Taxable income not exceeding Rs. 600,000	NIL
Taxable income exceeding Rs. 600,000 but not exceeding Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
Taxable income exceeding Rs. 1,200,000 but not exceeding Rs. 2,400,000	Rs. 15,000 + 12.5% of the amount exceeding Rs. 1,200,000
Taxable income exceeding Rs. 2,400,000 but not exceeding Rs. 3,600,000	Rs. 165,000 + 22.5% of the amount exceeding Rs. 2,400,000
Taxable income exceeding Rs. 3,600,000 but not exceeding Rs. 6,000,000	Rs. 435,000 + 27.5% of the amount exceeding Rs. 3,600,000
Taxable income exceeding Rs. 6,000,000	Rs. 1,095,000 + 35% of the amount exceeding Rs. 6,000,000

Income Tax Ordinance, 2001
Comparison of Tax Liability on Salary Income

Annual Salary (Rs.)	Tax Year 2023 (Rs.)	Tax Year 2024 (Rs.)	Difference (Rs.)
600,000	-	-	-
1,200,000	15,000	15,000	-
1,800,000	90,000	90,000	-
2,400,000	165,000	165,000	-
3,000,000	285,000	300,000	15,000
3,600,000	405,000	435,000	30,000
4,200,000	555,000	600,000	45,000
4,800,000	705,000	765,000	60,000
5,400,000	855,000	930,000	75,000
6,000,000	1,005,000	1,095,000	90,000
7,000,000	1,330,000	1,445,000	115,000
8,000,000	1,655,000	1,795,000	140,000
9,000,000	1,980,000	2,145,000	165,000
10,000,000	2,305,000	2,495,000	190,000
11,000,000	2,630,000	2,845,000	215,000
12,000,000	2,955,000	3,195,000	240,000



Tax Rate on Rental Income for Individuals and AOP

In Division V, Part III of First Schedule the following new rates have been inserted:

Sr. No.	Gross Amount of Rent	Rate of Tax
1.	Where the gross amount of rent does not exceed Rs. 300,000	Nil
2.	Where the gross amount of rent exceeds Rs. 300,000 but does not exceed Rs. 600,000	5% of the gross amount exceeding Rs. 300, 000
3.	Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000	Rs. 15,000 + 10% of the gross amount exceeding Rs. 600, 000
4.	Where the gross amount of rent exceed Rs. 2,000,000	Rs. 155,000 + 25% of the gross amount exceeding Rs. 2,000,000

Every person making payment to a company on account of rent is required to deduct tax @ 15%.

Capital Gain on Disposal of Securities

The rate of tax to be paid under section 37A shall be as follow:

Sr. No.	Holding Period	Tax Year 2023
1.	Where the holding period does not exceed one year.	15%
2.	Where holding period exceeds one year but does not exceed two years.	12.5%
3.	Where holding period exceeds two years but does not exceed three years.	10%
4.	Where holding period exceeds three years but does not exceed four years.	7.5%
5.	Where holding period exceeds four years but does not exceed five years.	5%
6.	Where holding period exceeds five years but does not exceed six years.	2.5%
7.	Where holding period exceeds six years.	0%
8.	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%
9.	Securities acquired on or after July 1 st , 2013 but on or before the 30 th day of June, 2022	12.5%

Capital Gain on Disposal of Immovable Properties

Division VIII, Part 1, First Schedule

The amount of any gain arising on disposal of an immovable property shall be computed as per the below table:

Sr. No.	Holding period	Rate of Tax		
		Open Plots	Constructed Property	Flats
1.	Where the holding period does not exceed one year.	15%	15%	15%

Income Tax Ordinance, 2001

Sr. No.	Holding period	Rate of Tax		
		Open Plots	Constructed Property	Flats
2.	Where holding period exceeds one year but does not exceed two years.	12.5%	10%	7.5%
3.	Where holding period exceeds two years but does not exceed three years.	10%	7.5%	0
4.	Where holding period exceeds three years but does not exceed four years.	7.5%	5%	-
5.	Where holding period exceeds four years but does not exceed five years.	5%	0	-
6.	Where holding period exceeds five years but does not exceed six years.	2.5%	-	-
7.	Where holding period exceeds six years.	0%	-	-

Minimum Tax

Persons	Threshold of Turnover	Rate Application
Individual	100 million	1.25%
Association of Persons	100 million	1.25%
Companies	N/A	1.25%

Rate for Computation of Tax Liability

The rates of tax imposed on builder and developer are given in the table below:

Rate of Tax for Builder

Area	Commercial Building Any Size	Residential Building up to 3000 square feet	Residential Building more than 3000 square feet
Karachi, Lahore, Islamabad	Rs. 250	Rs. 80	Rs. 125
Hyderabad, Sukker, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	Rs. 230	Rs. 65	Rs. 110
Urban Areas not specified	Rs. 210	Rs. 50	Rs. 100

Rate of Tax for Developer

Area	Entire Project other than Industrial Area (Any Size)	Development of Industrial Area (Any Size)
Karachi, Lahore, Islamabad	Rs. 150	Rs. 20
Hyderabad, Sukker, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	Rs. 130	Rs. 20
Urban Areas not specified	Rs. 100	Rs. 10

- In case of mixed use buildings having both commercial and residential areas, the respective rates mentioned above shall apply.
- In case of development of plots and constructing buildings on the same plots as one project both rates shall apply.
- In case of development of plots and construction of buildings on the same plots for low cost housing and all the projects developed by NAPHDA the higher rates shall apply.

Tax on high earning persons for poverty alleviation Division IIB, Part 1, First Schedule

Income under section 4C	Rate of Tax
Where income does not exceed Rs. 150 million	0% of the income
Where income exceeds Rs. 150 million but does not exceeds Rs. 200 million	1% of the income
Where income exceeds Rs. 200 million but does not exceeds Rs. 250 million	2% of the income
Where income exceeds Rs. 250 million but does not exceeds Rs. 300 million	3% of the income
Where income exceeds Rs. 300 million but does not exceeds Rs. 350 million	4% of the income
Where income exceeds Rs. 350 million but does not exceeds Rs. 400 million	6% of the income
Where income exceeds Rs. 400 million but does not exceeds Rs. 500 million	8% of the income
Where income exceeds Rs. 500 million	10% of the income

Tax Rate for Companies

Company	Rate for the Tax Year	
	2023	2024
Small Company	20%	20%
Banking Company	39%	39%
Any other Company	29%	29%

Withholding Tax Rate Card

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Section 148 – Imports		
Import of goods classified in Part 1 of the Twelfth Schedule	1% of import value	MTR - Commercial Imports Adjustable - Industrial Undertaking Usage
Import of goods classified in Part II of the Twelfth Schedule	2% of import value	
Import of goods classified in Part II of the Twelfth Schedule	3.5% of import value in case of commercial importer	
Import of goods classified in Part III of the Twelfth Schedule	- 5.5% of Import Value - 6% for Commercial Importer	
Manufacturer covered under SRO. 1125(i)/2011 dated 21.12.2011 and importing items covered under this SRO.	1%	MTR
Persons importing finished pharmaceutical products not manufactured in Pakistan as certified by Drug Regularity Authority of Pakistan	4%	MTR
Section 149 – Salary		
Salary paid by Employer	Average Rate of Tax	NTR
Section 150 – Dividend		
Dividend paid by independent power purchaser	7.5%	FTR
Other Companies and Mutual funds	15%	FTR
Dividend received by REIT scheme from SPV	0%	FTR
Dividend received by others from SPV	35%	FTR
Dividend paid by a company where no tax is payable by such company due to exemption of income etc.	25%	FTR
Section 151 - Profit on Debt		
Profit on debt	15%	FTR- up to Rs. 5M NTR- if exceeds Rs. 5M
Section 152 - Payment to Non-Resident		
Royalty or Fee for technical services	15%	FTR
In other case	10%	FTR
Contract for construction, assembly, installation projects, supervisory activities and advertisement services by TV satellite channel	8%	MTR
Payment of insurance or re-insurance premium	5%	MTR
Payment for advertisement services to media person	10%	MTR
Payment for foreign produced commercial for advertisements on any television channel or any other media	20%	FTR
Other payments to non-resident except payments covered under section 149, 150, 156 and 233.	20%	FTR
Sale of goods to companies	5%	MTR

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Sale of goods to other persons	5.5%	MTR
Rendering of transport, freight forwarding, air cargo, courier, manpower, hotel, security guard, software development, IT, tracking, advertising (other than by print or electronic media), share register, engineering, car rental, building maintenance services and services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services, Oilfield Services	4%	MTR
Rendering of Services: <ul style="list-style-type: none"> • Company • Other than company 	9% 11%	MTR
Execution of Contract (other than for supply of goods & rendering of service): <ul style="list-style-type: none"> • Sports person • Other than sports person 	10% 8%	MTR
Profit on debt paid to Individual	10%	FTR
Section 153 - Payments for Goods, Services and Contracts		
Sale of Goods: <ul style="list-style-type: none"> • Sale of rice, cotton seed or edible oil • Sale by distributors, dealers, sub dealers, wholesalers and retailers of FMCG goods, fertilizers, electronics excluding mobile phones, sugar, cement and edible oil • Sale by distributors of cigarettes and pharmaceutical products • Sale of gold, silver and such articles • Sale of any other goods including Toll Manufacturing: <ul style="list-style-type: none"> i. Company ii. Other than company 	1.5% 0.25% 1% 1% 5% 5.5%	MTR MTR MTR MTR NTR MTR

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Section 154 – Exports		
Export of goods	1%	FTR
For sale proceeds of goods to exporter under Back to Back LC or any other arrangement	1%	FTR
Export processing zone	1%	FTR
Direct exporter and registered export house	1%	FTR
Collector of customs	1%	FTR
Section 154A - Export of Services		
Export of Computer software or IT services or IT Enabled services by persons registered with Pakistan Software Export Board	0.25% of proceeds	FTR
Any other case	1% of proceeds	FTR
Section 155 - Income from Property		
<ul style="list-style-type: none"> • <i>In case of Individual and AOP</i> <ul style="list-style-type: none"> i. Where the gross amount of rent does not exceed Rs. 300,000 ii. Where the gross amount of rent exceeds Rs. 300,000 but does not exceed Rs. 600,000 iii. Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000 iv. Where the gross amount of rent exceeds Rs. 2,000,000 • <i>In case of Company</i> 	<p style="text-align: center;">Nil</p> <p>5% of the gross amount exceeding Rs. 300,000</p> <p>Rs. 15,000 + 10% of the gross amount exceeding Rs. 600,000</p> <p>Rs. 155,000 + 25% of the gross amount exceeding Rs. 2,000,000</p> <p style="text-align: center;">15%</p>	<p>NTR</p> <p>NTR</p>
Section 156 - Prizes and Winnings		
Prize on prize bonds or crossword puzzle	15%	FTR
Prize on winning of the quiz, winning from raffle, lottery & prize offered by companies for promotion on sales	20%	FTR
Section 156A - Petroleum Products		
Payment of commission to petrol pump operators	12%	FTR

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Section 231B - Advance Tax on Private Motor Vehicles		
Purchase of motor vehicle having engine capacity: <ul style="list-style-type: none"> • Up to 850CC • 851CC to 1000CC • 1001CC to 1300CC • 1301CC to 1600CC • 1601CC to 1800CC • 1801CC to 2000CC • 2001CC to 2500CC • 2501CC to 3000CC • Above 3000CC 	<p style="text-align: center;">Rs. 10,000</p> <p style="text-align: center;">Rs. 20,000</p> <p style="text-align: center;">Rs. 25,000</p> <p style="text-align: center;">Rs. 50,000</p> <p style="text-align: center;">Rs. 150,000</p> <p style="text-align: center;">Rs. 200,000</p> <p style="text-align: center;">6% of value</p> <p style="text-align: center;">8% of value</p> <p style="text-align: center;">10% of value</p>	Adjustable
Leased Motor Vehicles	4% of the Value of Motor Vehicle (Only in case of In-Active Taxpayers)	Adjustable
Transfer of registration or ownership of a private motor vehicle manufactured locally having engine capacity: <ul style="list-style-type: none"> • Up to 850CC • 851CC to 1000CC • 1001CC to 1300CC • 1301CC to 1600CC • 1601CC to 1800CC • 1801CC to 2000CC • 2001CC to 2500CC • 2501CC to 3000CC • Above 3000CC 	<p style="text-align: center;">Nil</p> <p style="text-align: center;">Rs. 5,000</p> <p style="text-align: center;">Rs. 7,500</p> <p style="text-align: center;">Rs. 12,500</p> <p style="text-align: center;">Rs. 18,750</p> <p style="text-align: center;">Rs. 25,000</p> <p style="text-align: center;">Rs. 37,500</p> <p style="text-align: center;">Rs. 50,000</p> <p style="text-align: center;">Rs. 62,500</p>	Adjustable
Sale of locally manufactured motor vehicle prior to registration having engine capacity: <ul style="list-style-type: none"> • Up to 1000CC • 1001CC to 2000CC • 2001CC and Above 	<p style="text-align: center;">Rs. 100,000</p> <p style="text-align: center;">Rs. 200,000</p> <p style="text-align: center;">Rs. 400,000</p>	Adjustable
Section 233 - Brokerage and Commission		
Advertising agents	10%	MTR
All others	12%	MTR
Life Insurance Agents where commission received is less than Rs. 0.5 Million per annum	8%	MTR

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Section 234 - Tax on Motor Vehicles		
In case of Non Air Conditioned passenger transport vehicle having seating capacity of: <ul style="list-style-type: none"> • 4 or more people but less than 10 person • 10 or more people but less than 20 person • 20 or more people 	Rs. 500 per Seat Rs. 1,500 per Seat Rs. 2,500 per Seat	Adjustable
In case of Air Conditioned passenger transport vehicle having seating capacity of: <ul style="list-style-type: none"> • 4 or more people but less than 10 person • 10 or more people but less than 20 person • 20 or more people 	Rs. 1,000 per Seat Rs. 2,000 per Seat Rs. 4,000 per Seat	Adjustable
Other motor car having engine capacity of: <ul style="list-style-type: none"> • Up to 1000CC • 1001CC to 1199CC • 1200CC to 1299CC • 1300CC to 1499CC • 1500CC to 1599CC • 1600CC to 1999CC • 2000CC and above 	Rs. 800 Rs. 1,500 Rs. 1,750 Rs. 2,500 Rs. 3,750 Rs. 4,500 Rs. 10,000	Adjustable
Where the motor vehicle tax is collected in lump sum: <ul style="list-style-type: none"> • Up to 1000CC • 1001CC to 1199CC • 1200CC to 1299CC • 1300CC to 1499CC • 1500CC to 1599CC • 1600CC to 1999CC • 2000CC and above 	Rs. 10,000 Rs. 18,000 Rs. 20,000 Rs. 30,000 Rs. 45,000 Rs. 60,000 Rs. 120,000	Adjustable
Section 235 - Electricity Consumption		
Where the amount of bill: <ul style="list-style-type: none"> • Does not exceed Rs. 500 • Exceeds Rs. 500 but does not exceed Rs. 20,000 • Exceeds Rs. 20,000 ○ For Commercial Consumer ○ For Industrial Consumer 	Nil 10% of Amount Rs. 1,950 + 12% exceeding Rs. 20,000 Rs. 1,950 + 5% exceeding Rs. 20,000	<u>Other than company</u> MTR-up to bill amount Rs. 360,000 p/a Adjustable-bill amount exceeding Rs. 30,000/month

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/Adjustable
Domestic Electricity Consumption: Where the amount of bill <ul style="list-style-type: none"> • Less than Rs. 25,000 • Rs. 25,000 or more 	Nil 7.5%	Adjustable
Section 235(1A) - Electricity Consumption		
Where the amount of bill: <ul style="list-style-type: none"> • Does not exceed Rs. 30,000 • Exceeds Rs. 30,000 but does not exceed Rs. 50,000 • Exceeds Rs. 50,000 but does not exceed Rs. 100,000 • Retailers and service providers as notified by the Board in the income tax general order 	Rs. 3,000 Rs. 5,000 Rs. 10,000 Up to Rs. 200,000	
Section 236 - Telephone and Internet Users		
Telephone subscriber where the monthly bill exceeds Rs. 1,000	10%	Adjustable
Subscriber of internet, mobile telephone and pre-paid internet or telephone cards	15%	Adjustable
Section 236A – Advance Tax at the Time of Sale by Auction		
Sale of any property or goods by auction	10%	Adjustable
Tax collected on the lease of the right to collect tolls	10%	Final
Sale of immovable property by auction	5%	Adjustable
Section 236C - Advance Tax on Sale or Transfer of Immovable Property		
Sale or transfer of immovable property	3%	NTR
Section 236CA – Advance Tax on TV plays and Advertisements		
Foreign-produced TV drama serial or play Foreign-produced TV play (single episode) Advertisement starring foreign actor	Rs.1,000,000 per episode Rs. 3,000,000 Rs.100,000 per second	MTR
Section 236G - Advance Tax on Sales to Distributors, Dealers and Wholesalers		
<ul style="list-style-type: none"> • Fertilizers (If Person appears in ATLS) • Fertilizers Other than above • Other than Fertilizers 	0.25% 0.7% 0.1%	NTR

Nature of Payment / Transaction	Standard Tax Rate	Tax Regime/ Adjustable
Section-236H Advance Tax on Sales to Retailers		
Sales to retailers	0.5%	NTR
Section-236K Advance Tax on Purchase of Immovable Property		
Fair market value of immovable property <ul style="list-style-type: none"> • Active Taxpayer • In-Active Taxpayer 	3% 10.5%	Adjustable
Section-236Y Advance Tax on Amount Remitted Abroad through Credit/ Debit/ Prepaid Cards		
Tax on Amount Remitted Abroad through Credit/ Debit/ Prepaid Cards	5% of the gross amount	Adjustable
Section-236Z Bonus Shares Issued by Companies		
Tax on Bonus Shares Issued by Companies	10% of the value of Bonus Shares including Bonus Shares Withheld	FTR

Notes:

- NTR = Normal Tax Regime, MTR = Minimum Tax Regime, FTR = Final Tax Regime
- For Inactive Taxpayers, withholding tax rate will be increased by 100% except under section 231B where withholding tax rate will be increased by 200%

Sales Tax Act, 1990

Sales Tax Act, 1990

Definition of Electricity Aligned with the Scope of Provincial Sales Tax Laws

(Section 2(12), (33))

In order to remove the redundancy among Federal and Provincial sales tax laws regarding the chargeability of sales tax on transmission and distribution of electricity, the Finance Act, 2023 has excluded the expression of “production, transmission and distribution of electricity” from the purview of Goods and Supply.

In view of the foregoing, services tax @ 15% has been introduced on ‘Electric Power Transmission Services’ under Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Scope of Tier-1 Retailers Widened

(Section 2(43A))

The Finance Act, 2023 has excluded the following area specific criterion from the scope of Tier-1 Retailers:

(e) A retailer with a shop measuring one thousand square feet or more (or two thousand square feet or more for furniture retailers).

(ga) A person involved in the supply of jewellery or parts made of precious metal or metal clad with precious metal, excluding those with shops measuring three hundred square feet or less.

This move would widen the scope to categorize the retailers as Tier-1 retailers.

Increase in Rate of Further Tax

(Section 3(1A))

The Finance Act, 2023 has increased the rate of further tax from 3% to 4% in case of supplies made to unregistered persons to encourage the business for registration by escalating the cost of doing business for the unregistered persons.

Fifth Schedule – Zero Rated Goods

Amendments in the Fifth Schedule

The following new insertions have been made in the Fifth Schedule to the Sales Tax Act, 1990 for chargeability of zero rated sales tax.

Sr. No.	Description
8A	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.
12	(xvii) Preparations suitable for infants, put up for retail sale not exceeding rupees six hundred per two hundred grams] (PCT Heading 1901.1000) (xxv) Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000).

Zero-Rating Extension for Local Supplies to Registered Exporters

Under the prevailing provision of the law local supplies of raw materials, components, parts, and plants and machinery, to the registered exporters under Export Facilitation Scheme, 2021 is subject to zero-rated sales tax. The amendments vide the Finance Act, 2023 aims to extend the zero-rating benefit to local supplies of "commodities" as well.

Sixth Schedule – Exempt Goods

By virtue of the Finance Act, 2023, the following items have been exempted from chargeability of sales tax by inclusion in Table – I to the Sixth Schedule to the Sales Tax Act, 1990:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
16,17, 18	Red chillies, Ginger and Turmeric shall be exempt excluding that sold under a brand name or trade mark.	0904.2110, 0904.2210, 09.10, 0910.3000
121	Following explanation have been inserted: For removal of doubt, it is clarified that the blood transfusion sets not packed in aluminum foil imported with blood bags CPDA-1, in corresponding quantity in same consignment are also exempt;	Respective headings

Sixth Schedule – Exempt Goods

Modification in Time Period under Finance Act, 2023

Sr. No.	Description
151	(b) Imports of plant, machinery, and equipment for installation in tribal areas, as well as industrial inputs by industries located in tribal areas as defined in the Constitution of the Islamic Republic of Pakistan, will be considered eligible until <i>30th June, 2024</i> . These imports would have been exempt from the provisions of the Act or related notifications if Article 247 of the Constitution had not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018.
152	Electricity supplies made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, until <i>30th June, 2024</i> , to residential and commercial consumers in tribal areas, as well as to industries in tribal areas that were established and began production before 31st May, 2018, will be eligible. However, this exemption does not apply to steel, ghee, or cooking oil industries.

Sales Tax Act, 1990

By virtue of The Finance Act, 2023, following items have been exempted from chargeability of sales tax by inclusion in Table – II to the Sixth Schedule to the Sales Tax Act, 1990:

Sr. No.	Description	HS Code
27	Wheat Bran[This exemption shall apply from the 1 st day of July, 2018]	2302.3000
32, 34, 35, 36, 37, 39, 41, 42	Yogurt, Butter, Desi Ghee, Processed Cheese, Products of meat and meat offal, meat of bovine animals, sheep, goat and uncooked poultry, fish and crustaceans shall be exempt excluding that sold under a brand name or trade mark.	Respective Headings

Eighth Schedule – Reduced Rates

The sales tax rate for the following goods has been changed.

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Previous rate of sales tax	Current rate of Sales Tax	Condition
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	Respective Headings	12%	15%	If supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather subject to the condition that they have maintained 4% value addition during the last six months”;
83.	DAP	Respective headings	Nil	5%	Subject to the condition that no refund of excessive input tax, if any, shall be admissible.

Islamabad Capital Territory (Tax on Services)

ICT Ordinance, 2001

The updated tax rates under the provisions of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 by virtue of the Finance Act, 2023 are as under:

Sr. No.	Description	Previous Rate of Tax	Current Rate of Tax
1	(ii) 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.	15%	(ii) (a) 5% 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) 15% where payment received in cash.
11	IT services and IT-enabled services. (a)“IT services” include but not limited to software development, software maintenance, system integration, web design, web development, web hosting and network design; and (b)“IT enabled services” include but not limited to inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, human resources (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally television programs and insurance claims processing.	5%	15%
60	Electric Power Transmission Services	Nil	15%

Federal Excise Act, 2005

Federal Excise Act, 2005

Scope of Chargeability of Federal Excise Duty (FED) Broadened

(Section 3(1))

The Finance Act, 2023 has broadened the scope of levy of FED by specifying that the FED is applicable on any items / services specified in the First Schedule regardless of the fact that whether or not these items / services fulfil the conditions mentioned in Section 3 of Federal Excise Act, 2005.

Amendments in First Schedule

By virtue of the Finance Act, 2023 the following amendments have been introduced in the First Schedule to the Federal Excise Act, 2005:

Sr. No.	Description	Previous Rate of FED	Current Rate of FED
Table 1			
8c	Tobacco mixture in an electrically heated tobacco product by whatever name called, intended for consumption by using a tobacco heating system without combustion.	Rs. 5,200 per kg	Rs. 16,500 per kg
59	Sugary Fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding mineral and aerated waters	10% of retail price	20% of the retail price
60	Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA.	-	Rupees 2,000 per fan with effect from the 1 st day of January, 2024
61	Incandescent bulbs both locally manufactured and imported.	-	20% ad valorem with effect from the 1 st day of January, 2024
62	Fertilizers	-	5% ad valorem
Table 2			
11	Franchise services, royalty and fee for technical services	10% 9812.9410	10% Respective heading

Customs Act, 1969

Customs Act, 1969

Scope of the Definition of Smuggle Widened

(Section 2)

The Finance Act, 2023 has amended the definition of “smuggle ” that aims to enable the customs authorities to conduct anti-smuggling operation anywhere within the territorial limits of the country.

Filing of Goods Declaration (GD) in case of Land Customs Station at Border

(Section 79)

Section 79 of the Customs Act, 1979 requires that owner of the goods imported shall file a good declaration (GD) within ten days after arrival of goods for home consumption or warehousing or transshipment.

However, by virtue of the Finance Act, 2023, in case of land customs station at border, the owner of the goods shall be legally bound to file such good declaration (GD) within three days after arrival of goods at border custom station to ease out congestion.

Insertions in the First Schedule

First Schedule, Part 1

The Finance Act, 2023 has made the following new insertions in the First Schedule to the Customs Act, 1969:

Sr. No	PCT Code	Description	Previous Rate of Duty	Current Rate of Duty
140A	2849.1000	Calcium (Carbides)	Nil	5%
168A	3824.9980	Chloro-paraffins liquid	Nil	10% till 31st Dec, 2023 and 5% from 1st January, 2024 to 30 th June, 2024
297A	7002.3200	Tubes of other glass having a linear coefficient of expansion not exceeding 5×10^{-6} per Kelvin within a temperature of 0°C to 300°C	Nil	10%
299	7005.1000	Non-wired glass, having an absorbent, reflecting or non-reflecting layer	20%	30%
	7005.2100	Colored throughout the mass (body tinted), opacified, flashed or merely surface ground	20%	30%
	7005.2900	Other	20%	20%
	7005.3000	Wired glass	20%	30%

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