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2023 The Finance Bill Tax Commentary





Tax Commentary 2023

An Information Guide

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Preface

This tax commentary intends to unravel the various post budget queries forthcoming by our clients. We have attempted to apprise them with a comprehensive explanation of the implications and an upshot that this Finance Bill has brought about. The tax commentary encompasses the amendments in the Income Tax Ordinance, Sales Tax Act, Federal Excise and Customs Act. The applicable amendments in the laws after enactment are effective from July 1, 2023, unless otherwise specified.

The commentary should be read in conjunction with the applicable sections of respective Ordinances, Acts and Rules along with the text of the Finance Bill, 2023. This tax commentary aims to provide a general guideline and thus should not be considered as a conclusive and enforceable document. Professional advice should be sought before acting on any newly introduced amendment in the Finance Bill or on our comments.

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

Lahore

June 10, 2023

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Table of Contents

Salient Features of the Budget 2023-2024.....	08
Comparative Budgetary Position.....	09
The Finance Bill 2023 Highlights.....	14
The Income Tax Ordinance, 2001.....	17
The Sales Tax Act, 1990.....	28
Islamabad Capital Territory (Tax on Services) Ordinance, 2001.....	34
The Federal Excise Act, 2005.....	37
The Customs Act, 1969.....	40

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Salient Features of the Budget 2023-2024

The salient features of the budget 2023-2024 are as follows:

- Total outlay of budget 2023-24 is Rs. 12,163 billion. This size is 35.08% higher than the size of budget estimates 2022-23.
- The tax collection target for the FBR has been set at Rs. 9,200 billion, which is 23% higher than last year's target.
- The net revenue receipts for 2023-24 have been estimated at Rs. 6,887 billion indicating an increase of 40.43% over the budget estimates of 2022-23.
- The provincial share in federal taxes is estimated at Rs. 5,276 billion during 2023-24, which is 28.69% higher than the budget estimates for 2022-23.
- The external resources for 2023-24 have been estimated at Rs. 2,527 billion against the budget estimates of Rs. 3,166 billion in 2022-23 reflecting a decrease of 20.19%.
- The overall expenditure during 2023-24 has been estimated at Rs. 14,460 billion, out of which the current expenditure is Rs. 13,320 billion.
- The subsidies expenditure during 2023-24 has been estimated at Rs. 1,074 billion, which is 2.62% lower than the revised estimates for 2022-23.
- The defense affairs and services expenditure during 2023-24 has been estimated at Rs. 1,804 billion which is 18.16% higher than the budget estimates for 2022-23.
- The development expenditures during 2023-24 has been estimated at Rs. 1,140 billion which is 11.34% percent higher than the budget estimates for 2022-23.

Budget, 2023-2024

Comparative Budgetary Position 2023-2024 & 2022-2023

Receipts

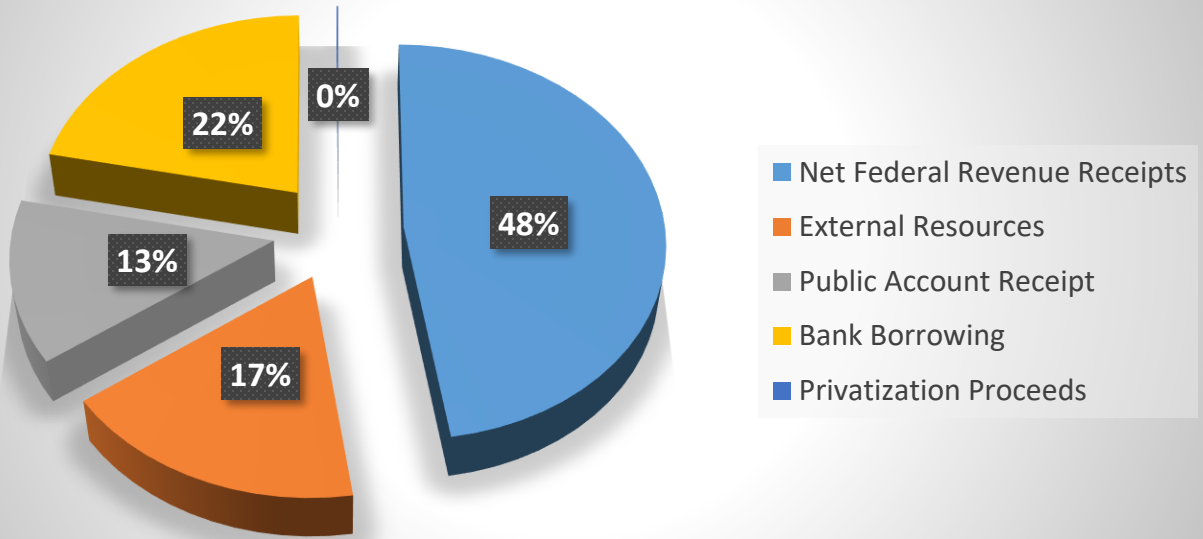
	2023-2024	2022-2023
	(Rs. in Billion)	(Rs. in Billion)
Tax Revenue	9,200.00	7,004.00
Non Tax Revenue	2,963.00	1,999.89
Gross Revenue Receipts	12,163.00	9,003.89
Less: Provincial Share in Taxes	(5,276.00)	(4,099.77)
Net Federal Revenue Receipts (A)	6,887.00	4,904.12
Capital Receipts (B)	-	2,407.68
External Resources (C)	2,527.00	3,166.33
Public Accounts Receipts (D)	1,907.00	(125.19)
Estimated Provincial Surplus (E)	-	800.00
Bank Borrowings (F)	3,124.00	1,171.82
Privatization Proceeds (G)	15.00	96.41
Total Resources (A+B+C+D+E+F)	14,460.00	12,421.17

Budget, 2023-2024

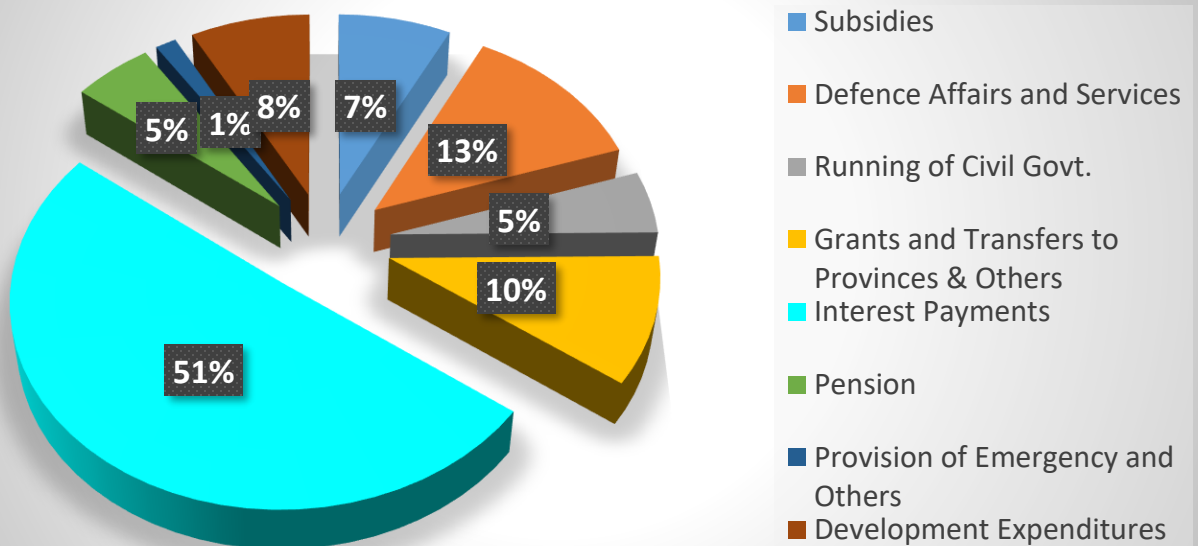
Expenditures

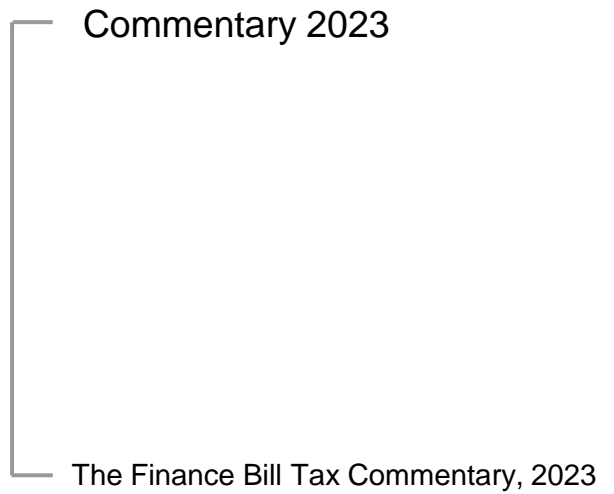
	2023-2024 <i>(Rs. in Billion)</i>	2022-2023 <i>(Rs. in Billion)</i>
Subsidies / General Public Services	1,074.00	6,288.93
Defense Affairs and Services	1,804.00	1,526.69
Running of Civil Govt. / Public Order and Safety Affairs	714.00	208.79
Grants and Transfers to Provinces & Others / Economic Affairs	1,464.00	177.22
Interest Payments / Environment Protection & Others	7,303.00	2735.02
Pension / Education Affairs and Services	761.00	90.55
Provision of Emergency and Others / Social Protection	200.00	370.10
Current Expenditures	13,320.00	8,663.00
Current Expenditure on Revenue Account & Capital Account (A)	13,320.00	11,397.27
Development Expenditures (B)	1,140.00	1,023.87
Total Expenditures (A+B)	14,460.00	12,421.17

Breakup of Receipts



Breakup of Expenditures





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The Finance Bill, 2023 Highlights

The Finance Bill Highlights

Income Tax Highlights

- Scope of Permanent Establishment (PE) widened to include the non-resident entities
- Definition of 'Small and Medium Enterprise (SME)' expanded with respect to its turnover
- Super tax graduated rate structure enlarged
- Tax credit against construction of house introduced for the individual taxpayers
- Definition of 'associates' streamlined with respect to the person sufficiently influencing the other for their economic and financial goals
- Additional tax on extraordinary income, profits and gains introduced
- Threshold of immunity from probe on foreign remittances increased from PKR 5 million to USD 100,000.
- Recovery of liability outstanding under other laws to be recovered by the Commissioner Inland Revenue
- Income tax exemption issuance process automated for non-residents
- Withholding tax rates enhanced for payment against sale of goods, services and contracts
- Exporters registered under the export facilitation scheme, 2021 to be prescribed as withholding agent
- Waiver from filing of sales tax returns for exporters of IT and IT enabled services
- Concept of "International Centre of Tax Excellence" introduced for development of tax policy
- Advance tax on cash withdrawal for non-active taxpayers re-introduced
- Advance tax on foreign domestic workers introduced
- Exemption of advance tax on purchase of property introduced for non-resident persons
- Rate of withholding tax on foreign payments through credit or debit cards enhanced from 1% to 5%
- Income arising to a shareholder of the company from the issuance of bonus shares to be taxed at the rate of 10% under the head, 'Income from Other Sources'.
- The rate of withholding tax for commercial importers enhanced from 5.5% to 6%
- NCCPL's scope enhanced as withholding tax agent for computation, collection and payment of Super Tax on the amount of capital gains computed

Sales Tax Highlights

- The requirement of shop area for Tier-1 retailers is proposed to be withdrawn
- Production, transmission and distribution of electricity is proposed to be excluded from the purview of goods and supply
- Branded red chilies, ginger and turmeric excluded from sales tax exemption
- Certain edibles sold in retail packing without brand name exempted
- The reduced rate of sales tax has been increased from 12% to 15% on supplies made by the POS retailers dealing in leather and textile products
- Imports of plant, machinery, and equipment for installation in tribal areas, as well as industrial inputs by industries located in tribal areas have been exempted
- An increase in rate of sales tax for locally manufactured finished textile goods has been proposed

Islamabad Capital Territory (Tax on Services) Highlights

- New penal provisions are prescribed under this Bill for certain offences
- Freelance exporters are proposed to be granted the status of a cottage industry
- Sales tax on services provided by hotels, motels etc. proposed to be reduced from 16% to 15%
- Services provided by restaurants, cafe etc. proposed to be taxed at 5% where payment is received through debit or credit card or mobile wallet etc
- Sales tax is proposed to be reduced from 16% to 15% on service provided by software or IT consultants
- Sales tax on electric power transmission services is proposed to be charged at 5%

Federal Excise Duty Highlights

- FED on energy inefficient fans proposed to be levied at Rupees two thousand per fan
- FED on incandescent bulbs proposed to be levied at twenty percent ad valorem
- FED on franchise services, royalty and fee for technical services proposed to be levied at 10% of the charges

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Income Tax Ordinance, 2001

Income Tax Ordinance, 2001

Scope of Permanent Establishment (PE) Widened

(Section 2(41))

The Finance Bill proposes to omit the word “fixed” from the definition of Permanent Establishment (PE) thereby broadening the scope of definition of PE for non-resident entities. It means that an entity that is not established at a distinct place but is carrying on business in Pakistan would be deemed to have a PE in Pakistan.

Definition of ‘Small and Medium Enterprise (SME)’ Expanded

(Section 2(59A))

The Finance Bill 2023-24 seeks to broaden scope of SME definition. Any person would be considered SME whose business turnover in a tax year does not exceed eight hundred million rupees and is engaged in:

- Manufacturing; or
- Providing or rendering IT services or IT enabled services.

If annual business turnover of a small and medium enterprise exceeds eight hundred million rupees, it shall not qualify as small and medium enterprise in that tax year or any subsequent tax year.

Super Tax Graduated Rate Structure Enhanced

(Section 4C, 147)

Under the prevailing provisions of the law, super tax on high earning persons is charged at the rate ranging from 1% to 4% on the thresholds prescribed. The Finance Bill, 2023 has proposed to increase the rate of tax as per the table below:

Description	Current Rate of Tax	Proposed 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%

Income Tax Ordinance, 2001

The super tax on high earning persons introduced vide the Finance Act, 2022 stirred up a tax controversy, however, the apex court, later on directed the taxpayers to pay 50% on provisional basis until the final outcome.

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

Tax Credit for Construction of House Introduced***(Section 65I)***

An individual shall be entitled to a tax credit for tax year 2024 to 2026 in respect of construction of a new house, if the house is completed during the said tax year and completion certificate is furnished along with return.

The amount of tax credit allowed shall be lesser of:

- ten percent of tax assessed to the person for the tax year; or
- one million rupees.

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

The Bill proposes to streamline 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.

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 Income, Profits and Gains Introduced***(Section 99D)***

The Finance Bill, 2023 has proposed to tax the deemed amount in order to collect more revenue from taxpayers by virtue of this newly inserted Section. Several advisory committees have recommended to the government taxing either the undistributed reserves or imposing a tax of up to 8% on exporters, as well as dividends for corporations paying tax under the Final Tax Regime (FTR) for the export of products or services.

The Bill seeks to impose an additional tax for any of the preceding five tax years from tax year 2023 and onwards on any 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.

Income Tax Ordinance, 2001
Threshold of Immunity from Probe on Foreign Remittances Rationalized (Section 111)

Historically, a built-in amnesty on foreign remittances has been available in the Income Tax Ordinance, 2001. As per sub-section (1) of Section 111, where any amount is credited in the person's books or a person has made any investment or is the owner of any money or has incurred expenditure or has concealed income and the person offers no explanation about such amount, investment, money, expenditure or income or the explanation is not satisfactory, such amount is added to the person's income chargeable to tax. However, the said provision is not applicable to any amount of foreign exchange which is not exceeding Rupees five million in a tax year remitted from outside Pakistan through normal banking channels that is encashed into Rupees by a scheduled bank and a certificate to this effect is produced from such bank. Following thresholds have been applicable in the past:

Tax Year	Applicable Threshold
Prior to Tax Year 2019	No limit
Tax Year 2019	Rupees ten million
Tax Year 2020, 2021, 2022 and 2023	Rupees five million
Tax 2024 - proposed through the Finance Bill, 2023-24	Rupees equivalent to US\$ one hundred thousand

Reduction in Minimum Tax for Listed Companies

(Section 113, Division IX, Part I, First Schedule)

The Finance Bill, 2023 has proposed to reduce minimum tax rate from 1.25% to 1% for companies listed on stock exchange, excluding listed companies which are already subject to specified reduced minimum tax rates.

Recovery of Liability Outstanding under Other Laws

(Section 146D)

Where any outstanding liability in or under any other statute or law for the time being in force, in respect of any defaulter is:

- treated as Income Tax arrears in that law;
- required to be recovered or collected by Commissioner (Inland Revenue); or
- referred to Commissioner (Inland Revenue) for the recovery;

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

Rate of Withholding Tax on Import for Commercial Importers Enhanced

(Section 148)

By virtue of the Finance Bill, 2023, it has been proposed to enhance the rate of withholding tax on imports from 5.5% to 6% for commercial importers of finished goods.

Income Tax Ordinance, 2001

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 the application.

The Finance Bill, 2023 has proposed 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.

Withholding Tax Rates Increased

(Section 152, 153)

By virtue of the Finance Bill, 2023, it has been proposed to increase withholding tax rates on the payments made u/s 152 and 153 of the Income Tax Ordinance, 2001:

Sr. No.	Description	Current Rate of Tax	Proposed Rate of Tax
Payment against Sale of Goods			
1.	In case of company	4%	5%
2.	In case of other taxpayers	4.5%	5.5%
Payment for Services			
3.	Service providers eligible for reduced rate	3%	4%
4.	Company	8%	9%
5.	Other taxpayers	10%	11%
Payment against Contracts			
6.	Non-resident Contractors	7%	8%
7.	Local Contracts - Company	6.5%	7.5%
8.	Local Contracts - Other Taxpayers	7%	8%

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 Bill, 2023 seeks to include the exporters registered under Export Facilitation Scheme, 2021 under the ambit of withholding agents for payment made to indirect exporters. The basic purpose of this scheme is to merge the all previous schemes under one umbrella to minimize the documents requirement through simplified single window operation and enhance the accessibility to encourage the export-related schemes. Now, the persons supplying goods to exporters registered under the Export Facilitation Scheme, 2021 shall also be charged at the rate of 1% on FTR basis.

Waiver from Filing of Sales Tax Returns for Exporters of IT and IT Enabled Services

(Section 154A)

The Finance Act 2021 introduced the concept of “Export of Services” thus allowing certain exporters of services to pay FTR tax @ 1% only. However, this reduction is based on the condition that income tax and sales tax returns have been filed.

Income Tax Ordinance, 2001

In order to further boost the export of IT and IT enabled services, the Finance Bill, 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 efficiency of the Federal Board of Revenue (the Board) and rationalize the tax systems of the Country the Bill has proposed to establish an Institute of “International Centre of Tax Excellence” for development of 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 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)***

Advance tax on cash withdrawal stands abolished by virtue of the Finance Act, 2021 by now. It has been proposed to be re-introduced for non-active taxpayers. The Finance Bill, 2023 has proposed that tax @ 0.6% shall be deducted 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 Bill, 2023 has proposed to collect advance tax of Rs. 200,000 per employee from any agency, sponsor or a person, seeking to employ any foreign national. This proposed advance tax shall be collected at issuance and renewal of domestic aide visa for any such foreign national.

Exemption of Advance tax on Purchase of Property Introduced for Non-resident Persons ***(Section 236K)***

Advance tax is collected on purchase of property at the rate of 2% for active taxpayers and 7% for non-active taxpayers. A non-resident person who is not required to file income tax return in Pakistan has to pay this tax which becomes his cost having no active income in Pakistan.

The Finance Bill, 2023 has proposed to abolish the withholding tax by introducing an exemption from the collection of this advance tax to any buyer or transferee who fulfills the following conditions:

- He is a non-resident individual holding a Pakistan Origin Card (POC) or National Identity Card for Overseas Pakistanis (NICOP) or Computerized National Identity Card (CNIC)
- The immovable property has been acquired through a Foreign Currency Value Account (FCVA) or NRP Rupee Value Account (NRVA) maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan

Income Tax Ordinance, 2001

Rate of Tax Increased on Foreign Payments through Credit or Debit Cards (Section 236Y)

Under the prevailing rates tax @ 1% on amounts remitted abroad through debit, credit or prepaid cards is deducted. The Finance Bill, 2023 proposes to increase the rate of tax from 1% to 5%.

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

The Finance Bill, 2023 has proposed to include 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 @ 10% by the company 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 under this section 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

The Second Schedule

Part I

Exemption to Specific Institution

(Clause 66 of Part I of Second Schedule)

The Bill proposes to grant income tax exemption to the following institutions of Clause (66), Table 1, Part 1 of the Second Schedule to the Income Tax Ordinance.

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

Exemption on Profit and Gains for Agro Based SME (Clause 154, Part I, Second Schedule)

Profits and gains of a small and medium enterprise setup as agro based industry is provided exemption for the Tax Year 2024 to Tax Year 2028 provided that such enterprise is setup on or after 1st day of July, 2023.

Part III

Tax Credit Proposed on Profits and Gains Derived by Builders:

(Clause 21 of Part III of Second Schedule)

By virtue of the Finance Bill, 2023, a tax credit has been proposed to the builders registered with the Directorate General of Designated Non-Financial Business and Professions, engaged in new building construction projects, for the Tax Year 2024 to Tax Year 2026, on profits and gains derived from business activities falling under the category of "Income from Business".

Tax credit will be lessor of:

- a. Ten percent of tax assessed to the person for the tax year
- b. Five million rupees

This reduction applies in the tax year when the builder submits the completion certificate issued by the relevant regulatory authority along with their tax return.

A new building project is defined as a construction endeavour that involves building structures, excluding land development projects. To qualify as a new building project, the layout plan must receive approval from the respective authority on or after July 1, 2023

Income Tax Ordinance, 2001

***Tax Credit Proposed on Profits and Gains Derived by Young Entrepreneurs
(Clause 22, Part III, Second Schedule)***

By virtue of the Finance Bill, 2023, a tax credit has been proposed to the young entrepreneurs for Tax Year 2024 to Tax Year 2026. The tax credit would be allowed as under:

Taxpayers	Lower of
Individual or AOP	50% reduction in tax liability or Rs. 2 million
Company	50% reduction in tax liability or Rs. 5 million

Youth Enterprise means a startup:

In case of sole proprietorship - owned by a Youth Individual;

In case of AOP - all members are Youth Individuals; and

In case of a Company - 100% shareholding is owned by Youth Individuals

Here word youth is defined as a natural person up to the age of 30 years. However, above clauses do not apply to startup named woman enterprise with the sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company whose 100% shareholding is held or owned by women.

The Seventh Schedule

***Reduced Rate of Tax for a Banking Company on Additional Advances for IT Services and IT Enabled Service
(Rule 7G)***

The Finance Bill, 2023 has proposed to reduce the tax liability on income deriving from additional advances for IT and IT Enabled Services in Pakistan for the tax years 2024 and 2025.

Current rate of tax	Proposed rate of tax
39%	20%

Additional advances mean advances disbursed in addition to average amount of such advances made in such sector by the bank for the immediately preceding tax year starting from 2023.

The taxable income attributable to reduced rate of 20% shall be computed through the following formula:

A x B / C

Where;

A = Taxable income of the Banking Company;

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

C = Total of the net mark-up and non-markup income of the banking company as per accounts.

Income Tax Ordinance, 2001

However, it is mandatory for a banking company to furnish audited accounts along with auditor's certificate while e-filing of income tax return.

Extension in Time for Reduced Rates for Banking Companies

(Rule 7D, 7E, 7F, Seventh Schedule)

As per the existing law, banking companies enjoy reduced tax rate of 20% till the tax year 2023 on the following:

- on additional advances for micro, small and medium enterprises
- on additional advances for low cost housing; and
- on additional advances as farm credit.

The Bill proposes to extend such reduced rates till tax year 2025.

Exemption on Profits and Gains Derived from Federal Government Sovereign Debt

(Rule 8)

By virtue of the Finance Bill, 2023, Non-resident banking companies approved by the Federal Government can now enjoy tax exemption on all profits derived from investing in sovereign debt or a sovereign debt instrument.

The Eighth Schedule

Collection and Payment of Super Tax by NCCPL

The Bill proposes to extend the scope of NCCPL by authorizing it for computation and collection of super tax payable under section 4C on the amount of capital gain derived from the disposal of listed shares.

The Fourteenth Schedule

Registration for IT and IT enabled enterprises

Small and Medium enterprises engaged in IT and IT enabled services required to be registered with Pakistan Software Registration Board in addition to registration with SMERP.

Change in Tax Rates for SME
For Normal Tax Regime:

Sr. No.	Category	Turnover	Current Rate of Tax	Proposed Rate of Tax
1.	Category-1	Where annual business turnover not exceeding Rupees 100 million	7.5%	7.5%
2.	Category-2	Where annual turnover exceeds Rupees 100 million but not exceeding Rupees 250 million	15%	15%
3.	Category-3	Where annual turnover exceeds Rupees 250 million but not exceeding Rupees 800 million	N/A	20%

For Final Tax Regime:

Sr. No.	Category	Turnover	Current Rate of Tax	Proposed Rate of Tax
1.	Category-1	Where annual business turnover not exceeding Rupees 100 million	0.25%	0.25%
2.	Category-2	Where annual turnover exceeds Rupees 100 million but not exceeding Rupees 250 million	0.5%	0.5%
3.	Category-3	Where annual turnover exceeds Rupees 250 million but not exceeding Rupees 800 million	N/A	0.75%

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Sales Tax Act, 1990

Sales Tax Act, 1990

Electricity Excluded from the Scope of Sales Tax on Goods (Section 2(12), (33))

The Finance Bill, 2023 has proposed the exclusion of “production, transmission and distribution of electricity” from the purview of Goods and Supply.

Tier-1 Retailers (Section 2(43A))

The Finance Bill, 2023 has proposed to exclude 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 as any person fulfilling the any of the other prescribed conditions would fall under the definition of Tier-1 retailer irrespective of the area of shop.

Directorate General of Digital Initiatives Introduced (Section 30CA)

By virtue of Finance (Supplementary) Act, 2022 Directorate General of Digital Invoicing and Analysis, Islamabad has been created with its Headquarters at Islamabad that would integrate the sales tax supply chain. Director General, Directorate General of Digital Invoicing and Analysis shall report to the Chairman, FBR through Member (IR-Operations).

By virtue of proposed amendment, the Bill seeks to widen the scope of the digitization scheme for automated real-time monitoring.

Through this digitization campaign FBR will give incentives to the entire supply chain who would report their sales online under the FBR’s new system. The system will link the sales data of manufacturers, dealers, distributors, wholesalers, and retailers to integrate with FBR database.

Fifth Schedule – Zero Rated Goods

Amendments in the fifth schedule

The following new entries have been proposed to be inserted in the Fifth Schedule to the Sales Tax Act, 1990.

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	Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000).

Sales Tax Act, 1990

Zero-Rating Extension for Local Supplies to Registered Exporters

(Serial 21, 5th Schedule)

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 are subject to zero-rated sales tax. The proposed amendment in the Finance Bill, 2023 aims to extend the zero-rating benefit to local supplies of "commodities" as well.

Sixth Schedule – Exempt Goods

Following goods are proposed to be exempted from chargeability of sales tax:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
16,17, 18	Red chilies, 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 has 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
175	Contraceptive and accessories thereof	3926.9020 and 4014.1000
176	Bovine semen	0511.1000
177	Saplings	Respective heading
178	Combined Harvester – Thresher	8433.5100
179	Dryer for agricultural products	8419.3400
180	No-till-direct seeder, planters, trans-planters and other planters	8432.3100 and 8432.3900
181	Import of goods as mentioned under S. No. 159 of Part III of Fifth Schedule to the Customs Act, 1969 (IV of 1969) chargeable to customs duty at the rate of zero percent, subject to the conditions, restrictions and limitations mentioned therein, by the software exporters registered with the Pakistan Software Export Board.	7471.3010, 8471.3020(Personal computers), 8471.3090(others), 8471.4110(Micro Computer), 8471.6010(Key boards), 8471.6020(Mouse and other pointing devices), 8471.6090(Other), 8471.7040(CD-ROM drive), 8471.9020(Multi Media kits for PCs), 8471.7020(Hard disk drive), 8471.5000(Processing units) and 8517.6270(Routers).

Sixth Schedule – Exempt Goods

Following insertions have been proposed to be withdrawn:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
159	Import of auto disable Syringes till [31st December, 2021] (i) with needles (ii) without needles	9018.3110 9018.3120
160	Import of following raw materials for the manufacturers of auto disable syringes till [31st December, 2021] (i) Tubular metal needles (ii) (ii) Rubber Gaskets	9018.3200 4016.9310

Sixth Schedule – Exempt Goods

Modification in Time Period proposed by Finance Bill, 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.

Following amendments are made in Table-II of the Sixth Schedule through this Finance Bill:

Sr. No.	Description	HS Code
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

Sales Tax Act, 1990

Eighth Schedule – Reduced Rates

The proposed change in the sales tax rate has been suggested for the following goods:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Current rate of sales tax	Proposed 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”;

Substitutions in Eighth Schedule

Following substitutions have been proposed in sales tax:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Current rate of sales tax	Proposed rate of sales tax	Condition
81.	Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely;	Respective Headings	1%	1%	Subject to the conditions that: i. Tax charged and deposited by the manufacturer or importer, as the case may be, shall be final discharge of tax in the supply chain

81.	<p>a) filled infusion solution bags imported with or without infusion given sets;</p> <p>b) scrubs, detergents and washing preparations;</p> <p>c) soft soap or no soap;</p> <p>d) adhesive plaster;</p> <p>e) surgical tapes;</p> <p>f) liquid paraffin;</p> <p>g) disinfectants, and</p> <p>h) Cosmetics and toilet preparations.</p> <p>This substitution shall be deemed to have been made from the 1st day of July, 2022.</p>	Respective Headings	1%	1%	i. No input tax shall be adjusted by the manufacturer or importer
82.	<p>Raw materials for the basic manufacture of pharmaceutical active ingredients and for manufacture of pharmaceutical products, provided that in case of import, only such raw materials shall be entitled to exemption which are liable to customs duty not exceeding eleven per cent ad valorem, either under the First Schedule or Fifth Schedule to the Customs Act, 1969 (IV of 1969) or under a notification issued under section 19 thereof. This substitution shall be deemed to have been made from the 1st day of July, 2022.</p>	Respective Headings	1%	1%	<p>Subject to the conditions that:</p> <p>i. DRAP shall certify item wise requirement of manufacturers of drugs and APIs and in case of import shall furnish all relevant information to Pakistan Customs Computerized System; and</p> <p>ii. No input tax shall be adjusted by the manufacturer or importer.</p>

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Islamabad Capital Territory (Tax on Services)

Islamabad Capital Territory

Scope of Tax Rationalized

(Clause (a), Sub-section 2A, Section 3)

The Finance Bill, 2023 proposes to grant those freelance exporter who are exclusively dealing in IT and IT enabled services the status of cottage industry and are not required to be registered under the Sales Tax Act. Scope of IT and IT enabled services is proposed to be harmonized with the scope envisaged under the Income Tax Ordinance, 2001 on the proposal of Ministry of Information Technology.

Furthermore, the Bill proposes, the term freelance exporter comprehensively means a person who works on per job and on self-employed basis without being attached to or under employment of any other person, having the liberty to work on various tasks simultaneously.

Proposed Amendments in Table-1

Following amendments have been proposed in Table-1 of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001:

Sr. No.	Description	Current Rate	Proposed Rate
1	<p>(i) Services provided or rendered by hotels, motels, guest houses, farmhouses, marriage halls, lawns, clubs and caterers</p> <p>(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.</p>	Sixteen percent	<p>(i) Fifteen percent</p> <p>(ii) (a) Five percent where payment against services is received through debit or credit cards, mobile wallets or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible; and</p> <p>(b) Fifteen percent where payment received in cash.</p>
11	Services provided by software or IT-based system development consultants	Sixteen percent	Fifteen percent

The Finance Bill, 2023 proposes the following insertion of new services for imposition of Sales Tax on services:

Sr. No.	Description	Proposed Rate of Tax
60	Electric Power Transmission Services	Fifteen percent

Proposed Amendments in Table-2

Following amendments have been proposed in Table-2 of the Islamabad Capital Territory (Tax on Services) Ordinance, 2001:

Sr. No.	Description	Current Rate	Proposed Rate
11	<p>IT services and IT-enabled services.</p> <p>(a) "IT services" include but not limited to software development, software maintenance, system integration, web design, web development, web hosting and network design; and</p> <p>(b) "IT enabled services" include but not limited to inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, human resources (HR) services, telemedicine centres, data entry operations, cloud computing services, data storage services, locally television programs and insurance claims processing.</p>	Five percent	Five percent subject to the conditions that no input tax adjustment or refund shall be admissible.

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Federal Excise Act, 2005

Federal Excise Act, 2005

Scope of Chargeability of Federal Excise Duty (FED) Broadened

(Clause (e), Sub-section 1, Section 3)

It has been proposed that the FED be levied on any items specified in the First Schedule regardless of whether these items are produced / manufactured in Pakistan or not or whether these are imported into Pakistan or not.

Hierarchy of Directorate Digital Initiative Prescribed

(Clause (d), Sub-section 2, Section 29)

By virtue of Finance (Supplementary) Act, 2022 Directorate General of Digital Invoicing and Analysis, Islamabad has been created with its Headquarters at Islamabad that would integrate the sales tax supply chain. Director General, Directorate General of Digital Invoicing and Analysis shall report to the Chairman, FBR through Member (IR-Operations).

By virtue of proposed amendment the Bill seeks to replace the nomenclature of Directorate General of Digital Invoicing and Analysis with the Directorate General of Digital Initiatives to widen the scope of the digitization scheme for automated real-time monitoring.

Through this digitization campaign FBR will give incentives to the entire supply chain who would report their sales online under the FBR's new system. The system will link the sales data of manufacturers, dealers, distributors, wholesalers, and retailers to integrate with FBR database. The proposed amendment seeks to provide hierarchy of the Directorate.

Procedure for Dissemination of FED Rulings etc. Prescribed (Sub-section 4, Section 40)

The Finance Bill, 2023 has proposed the procedure for publication of general orders, departmental instructions and rulings and providing it to public at reasonable price or may be uploading it on the official website. These measures would be implemented to ensure alignment with the procedures prescribed by the FBR.

Proposed Amendments in First Schedule

Following Changes have been proposed in the First Schedule to the Federal Excise Act, 2005.

(Table-1)

The Finance Bill, 2023 proposes the following insertions of new items for imposition of the FED:

Sr. No.	Description	Proposed Rate of Duty
60	Energy inefficient fans both locally manufactured and imported which do not comply with the MEPS, notified by PSQCA	Rupees two thousand per fan
61	Incandescent bulbs both locally manufactured and imported	Twenty percent ad valorem

(Table-2)

The Finance Bill, 2023 proposes the following insertions of new services for imposition of the FED:

Sr. No.	Description	Current	Proposed
11	Franchise services, royalty and fee for technical services	9812.9410	Respective heading

This is pertinent to mention here that the applicable FED rate on such services is proposed to be 10% of the charges.

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Customs Act, 1969

Customs Act, 1969

Definition of Smuggle

(Section 2)

The Finance Bill proposes to amend the definition of “smuggle ” aimed to enable the customs authorities to conduct anti-smuggling operation anywhere within the territorial limits of the country.

Assistance to the Officer of Customs

(Section 7)

The Finance Bill proposes to amend Section 7 of the Customs Act, 1969 to include provincial Levies and Khasadar force in the list of government agencies which are bound to provide assistance to customs whenever requested.

Filing of Good Declaration(GD)

(Section 79)

The Finance Bill proposed that owner of the goods shall be legally bind to file a good declaration (GDs) within three days after arrival of goods at border custom station to ease out congestion.

Confiscated Property

(Section 182)

Presently the FBR is empowered to authorize the Customs officials to use the confiscated vehicles for operational purposes. It has now been proposed that the FBR may also authorize the concerned officials, to use any confiscated conveyance and any other useful equipment for operational purposes, including anti-smuggling operations.

Adjudication Process Automated

(Section 179(2))

The Finance Bill proposes to introduce the option for adjudication through customs computerized system with a view to improve the clearance time and reduce human intervention.

Custom Duty Exemption

Fifth Schedule Part 1

Following new insertions have been proposed to make in the 5th Schedule Sr. No.21

7(aa). Raw materials for the manufacture of PV Modules			
(i). Silicon Adhesive/ Sealant.	3506.9990	0%	If imported by the local assemblers/ manufacturers registered under the Sales Tax Act, 1990, of PV Modules subject to quota determination by the Input Output Coefficient Organization (IOCO).
(ii). MC4 Connectors.	8536.9090		
(iii). Back sheet film.	3920.9900		
(iv). Packing boxes/ modules.	4819.1000		
	4819.5000		
(v). Corner block.	7610.9000		
(vi). Polyethylene compound.	3901.9000		
(vii).Tinned ingot.	8001.0000		

The Finance Bill proposes the following new insertions in serial No. 159

Following IT related Equipment			Software exporters registered with Pakistan Software Export Board will have a concession on the assessed value of the imported goods equivalent to 1% of their export proceeds of the previous financial year subject to the conditions that (i) Pakistan Software Export Board shall certify that the imported goods are bona fide requirements for their own use of the software exporter; and (ii) Export proceeds shall also be certified by the Pakistan Software Export Board (Explanation: Concession equivalent to 1% of the export proceeds of the preceding Financial Year on the assessed value of the imported goods may be availed on one or multiple consignments during the financial year but cumulatively it will not exceed 1% of the export proceeds.
i. Laptop computers, notebooks whether or not incorporating multimedia kit	8471.3010	0%	
ii. Personal computers	8471.3020		
iii. Other	8471.3090		
iv. Micro computer	8471.4110		
v. Key boards	8471.6010		
vi. Mouse and other pointing devices.	8471.6020		
vii. Scanner	8471.6030		
viii. Other	8471.6090		
ix. CD ROM Drive	8471.7040		
x. Multimedia kits for PCs	8471.9020		
xi. Hard disk drives	8471.7020		
xii. Servers	8471.5000		
xiii. Routers	8517.6270		

The Finance Bill proposes to exempt the seed for sowing in Part-III of Fifth Schedule of Customs Act.

Sr. No.	Description	PCT Code	Customs Duty %
9A	Other seeds for sowing	Respective heading	0%

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