June 13, 2024

Federal Budget 2024

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FEDERAL BUDGET 2024

This memorandum gives a brief overview of Pakistan economy and significant amendments proposed by the Finance Bill 2024. All changes proposed through the Finance Bill 2024, subject to approval by National Assembly and Presidential assent, are effective July 1, 2024 unless otherwise indicated.

This memorandum can also be accessed on our website https://www.pwc.com.pk

June 13, 2024

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KEY ECONOMIC INDICATORS

Economic Survey 2023-2024

The restoration of macroeconomic stability is imperative for establishing a platform to stimulate growth, enhance employment, and improve the overall quality of life for the people. Recent years have been characterized by exacerbated challenges that have persisted since FY 2022. Pakistan has encountered multiple global shocks, including supply chain distortions from the Russia-Ukraine conflict, elevated global inflationary pressures leading to monetary tightening, and oil price shocks due to heightened geopolitical tensions in the Middle East.

The economy of Pakistan embarked on a stabilization phase in FY 2024. Government's dedicated efforts to complete 2023 Stand-By Arrangement (SBA) have yielded significant progress in reinstating economic stability. The economy has experienced a resurgence in moderate growth and a reduction in external pressures. Although inflation remains high, it is now on a downward trend.

	FY 23 – 24	*FY 22 – 23*
GDP growth rate	2.38%	(0.21%)
Per capita income - US$	1,680	1,551
FDI (July – March) US$ million	1,099	1,217
Consumer price index (July – March)	26%	28.2%
Public debt (PKR billion)		
- **Domestic**	43,432	38,810
- **Foreign**	24,093	24,071
	67,525	62,881
Budget deficit - %age of GDP	6.5%	7.8%

Source: Economic Survey of Pakistan 2023-2024

BUDGET AT GLANCE

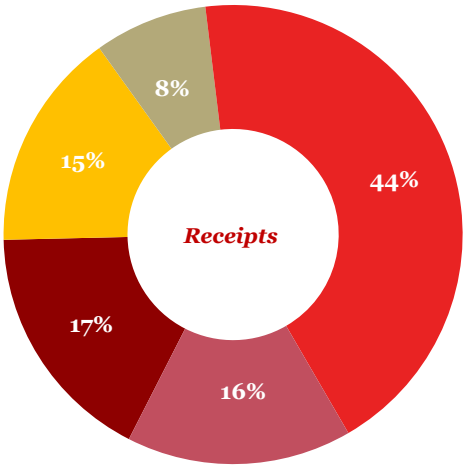
Budget Financials

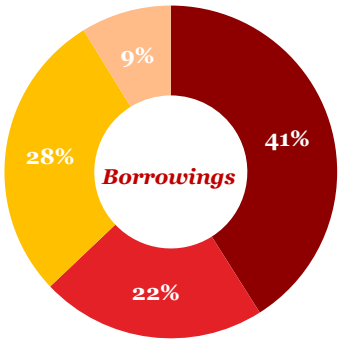
The following table sets out the Key Budget Financials:

	2024-2025		2023-2024 (Revised)	
	Rs in Billion	*%*	*Rs in Billion*	*%*
Tax revenue	12,970		9,252	
Non-tax revenue	4,845		2,948	
Gross revenue receipts	17,815		12,200	
Public account receipt – net	120		(95)	
Total receipts	17,935	100	12,105	100
Less: Provincial share in Federal taxes	(7,438)	(41)	(5,427)	(45)
Net revenue receipts	10,497	59	6,678	55
Expenditure				
- Current expenditure	(22,372)	(125)	(16,928)	(140)
- Development expenditure	(2,017)	(11)	(1,490)	(12)
	(24,389)	(136)	(18,418)	(152)
Deficit	**(13,892)**	**(77)**	**(11,740)**	**(97)**
- Domestic debts non-bank	3,035		2,802	
- Domestic debts banks	3,924		3,335	
- Foreign debts / grants	5,686		5,053	
- Privatization proceeds	30		11	
- Surplus from provinces	1,217		539	
	13,892		**11,740**	

WHERE FROM THE RUPEE COMES IN AND WHERE IT GOES OUT

IN

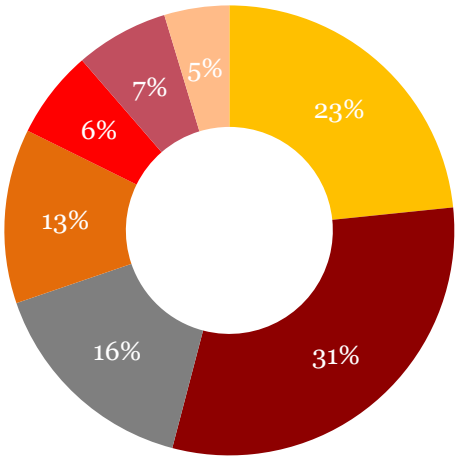




- Income Tax (17%)
- Sales Tax (15%)
- Customs Duty (5%) & FED (3%)
- Borrowings (44%)
- Non-tax revenue (16%)

- Foreign debts / Grants (41%)
- Domestic debts non-bank (22%)
- Domestic debts banks (28%)
- Surplus from provinces (9%)

OUT



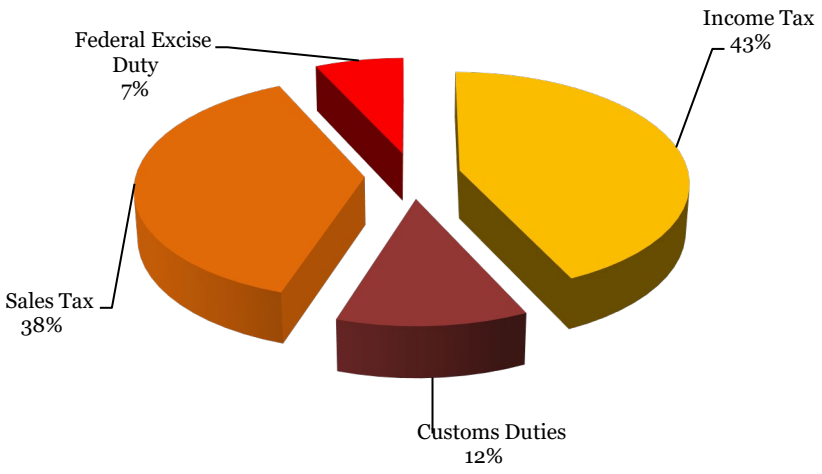
- Provincial share in Federal taxes (23%)
- Debt servicing (31%)
- Foreign Loan repayments (16%)
- Federal Government expenses including pensions (13%)
- Development expenditure (6%)
- Defence Affairs and Services (7%)
- Grants and transfers (5%)

BREAK-UP OF TAX REVENUE

There is no significant change in the ratio of direct taxes in the overall tax collection.

A substantial and incremental shift is required to expand tax base and distribute tax burden across all sectors of the economy.

	FY 24 –25 Rs in Billion	FY 23 –24 (Revised) Rs in Billion
Direct Taxes:		
• Income Tax	5,454	3,682
• WWF, WPPF & Others	58	39
	5,512	3,721
Indirect Taxes:		
• Sales Tax	4,919	3,607
• Customs Duty	1,591	1,324
• Federal Excise Duty	948	600
	7,458	5,531
	12,970	9,252



EXECUTIVE SUMMARY

The salient features of the amendments proposed in the Finance Bill with regard to various taxation laws are as under:

INCOME TAX

1. Exporters of goods are brought into the normal tax regime whereby the withholding tax collected is to be treated as minimum tax. Introduction of additional advance tax at the rate of 1% of export proceeds, which is adjustable.

2. The topline rate for non-salaried individuals and Association of Persons is enhanced from 35% to 45%. With no abolishment of Super tax, such persons having income exceeding Rs 500 million would be subject to effective tax rate of 55%.

3. Tax rates of salaried individuals are to be increased however maximum rate is still 35%.

4. Tax incidence for non-filers considerably enhanced for transactions relating to immovable properties besides adding a new category of taxpayers whose name are on Active Taxpayers List but they filed the returns after the due date or extended date.

5. Capital gains relating to immovable properties are also proposed to be taxed without regard to the holding period for acquisitions on July 1, 2024 and onwards.

6. The concept of holding period abolished for capital gains relating to securities acquired on or after July 1, 2024 with separate rates prescribed for filers and non-filers.

7. The facility of exemption certificate for withholding tax is proposed to be withdrawn and henceforth the Commissioner will only be able to issue a certificate for lower rate of tax in certain cases. This amendment would adversely impact taxpayers whose income is exempt from tax or subject to 100% tax credit.

8. Withholding tax requirement on purchase of unlisted shares applicable at the earlier of payment or registration of shares with Securities & Exchange Commission of Pakistan or State Bank of Pakistan, as the case may be.

9. 25% of sales promotion and advertising expense to be disallowed in case of royalty arrangement with an associated concern on account of certain intangibles.

10. Rate of tax on dividend and capital gains from mutual funds and REITs enhanced.

11. Provisions relating to advance tax collection from distributors, wholesalers, retailers extended to all business sectors.

12. Reinstatement of Commissioner's power to reject advance tax estimate in the absence of filing of relevant information by the taxpayer.

13. Under the revamped appellate procedure, the date for pending appeals to be transferred by the Commissioner Appeals to the Appellate Tribunal extended from June 16 to September 16, 2024.

14. FBR empowered to declare a minimum value of certain imported goods for the purpose of computation of advance tax collection at import stage.

15. Banking Companies would not be allowed to claim any adjustment on account of application of IFRS 9.

16. Reduction in tax liability available to full time teachers and researchers withdrawn.

17. The period of exemption on income of residents of erstwhile Tribal Areas is proposed to be extended for another year upto June 30, 2025.

SALES TAX

18. Various sales tax exemptions and zero-rating facilities withdrawn.

19. Sales tax on pharma sector enhanced from 1% to 18% except for substances registered as drugs.

20. Sales tax assessment procedure has been revamped whereby the concepts of best judgement assessment and investigative audits also introduced.

21. Sales tax on advances reintroduced.

22. The definition of 'tax fraud' enhanced.

FEDERAL EXCISE DUTY

23. FED at the rate of 5% sought to be levied on allotment / transfer of immovable properties. This measure needs to be examined in the light of Constitutional provisions.

24. Minimum retail price of cigarettes in certain categories revised without any corresponding amendment in rates of duty applicable thereon.

INCOME TAX

ABOLISHMENT OF FINAL TAX REGIME ON EXPORTS OF GOODS

Since early 1990s, export of goods has been subjected to final tax regime whereby withholding tax collected by the Authorized Dealers on remittance of export proceeds is considered to be final discharge of their tax liability irrespective of underlying income / loss. Similar tax regime is also applicable for entities operating in Export Processing Zones (EPZs) as well as indirect exporters.

Whilst the scope of amounts taxable under final tax regimes were brought to normal / minimum tax regime in 2019, exporters remained under such regime. It is now proposed that tax collected from above-referred persons at the rate of 1% is also to be treated as minimum tax and consequently such persons shall be required to compute their normal taxable income / loss in accordance with applicable provisions and in case 1% withholding tax is lower than tax computed on such taxable income, the incremental tax will have to be paid. As a result of change in tax regime, exporters will also be liable to pay super tax as against the earlier position regarding non-applicability on their income having been subject to final tax.

Furthermore, in addition to currently applicable 1% withholding tax, an additional advance tax at the rate of 1% shall also be collected from direct exporters of goods, which shall not be treated as minimum tax and in case of any incremental tax liability, the exporter shall be able to adjust such advance tax.

WITHDRAWAL OF POWERS TO ISSUE EXEMPTION CERTIFICATES

The Commissioner is empowered to issue an exemption certificate *inter alia* in cases where the person's income is exempt from tax or subject to 100% tax credit (such as Non-profit organizations). The Commissioner is also empowered to issue such exemption certificates in case of payments for sale of goods, services rendered and execution of contracts by resident and non-resident persons, subject to certain conditions.

The powers to issue exemption certificate in aforesaid cases are proposed to be withdrawn, however, the Commissioner would still be able to issue certificates for lower rate of tax.

The proposal is harsh and hence needs to be revisited as the same would adversely affect those cases in particular where the income is exempt from tax or subject to 100% tax credit under specific provisions.

TAXATION OF IMMOVABLE PROPERTIES

ADVANCE TAX ON PURCHASE / SALE / TRANSFER OF IMMOVABLE PROPERTY

The rate of advance tax to be collected from buyer or seller on purchase / sale / transfer of property is currently 3% of Fair Market Value / consideration received.

Progressive advance tax rates are proposed on purchase and sale of properties for the following three categories:

(i) persons appearing in ATL;

(ii) persons not appearing in ATL; and

(iii) persons appearing in ATL who have filed their returns after the due date or the extended due date (hereinafter referred as late filers).

A new concept of enhanced advance tax rates on sale and purchase of immovable property is proposed for late filers. This proposed amendment is aimed at discouraging the practice of filing of the return of income at the time of buying and selling of properties merely to avoid enhanced collection of advance tax applicable to persons not appearing in ATL, under the Tenth Schedule. Such enhanced rate applicable to late filers is higher than the persons appearing in ATL but lower than those not in ATL.

The proposed advance tax rates for the abovementioned categories are as under:

Advance Tax on Sale or Transfer of Immovable Property

S. No.	Gross consideration received	Tax Rates		
		Persons appearing in ATL	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1	Upto Rs. 50 million	3%	6%	10% of the gross amount of consideration received
2	Over Rs. 50 million to Rs. 100 million	3.5%	7%	
3	Exceeding Rs. 100 million	4%	8%	

Advance Tax on Purchase of Immovable Property

S. No.	*Fair Market Value*	*Tax Rates*		
		Persons appearing in ATL	*Persons appearing in ATL who filed returns after due date*	*Persons not appearing in ATL*
1	Upto Rs. 50 million	3%	6%	12%
2	Over Rs. 50 million to Rs. 100 million	3.5%	7%	16%
3	Exceeding Rs. 100 million	4%	8%	20%

Capital Gains Tax on Immovable Property

Capital gains on disposal of immovable property are presently taxable at varying rates upto 15% depending on holding period and the class of property (open plots, constructed property and flats). Immovable properties disposed after specified holding period are subject to 0% tax. There is no change in capital gains tax regime for properties acquired before July 1, 2024.

A flat rate of 15% is proposed on gain from disposal of immovable property acquired on or after July 1, 2024, by persons appearing in ATL on the date of disposal, regardless of the holding period. For persons not appearing in ATL, progressive tax rates on income with the minimum tax of 15% have been proposed.

INCREASE IN TAX RATES FOR NON-CORPORATE TAXPAYERS

The Finance Bill has proposed to revise the slab rates for salaried individuals and non-salaried individuals as well as Association of Persons (AOP). The maximum rate for salaried individuals has been kept at 35% with revisions within different slabs. However, for non-salaried individuals and AOPs, the maximum rate has been enhanced from 35% to 45%. As no amendment has been proposed to the rate for corporate taxpayers, it appears that the purpose of enhancing the rates for AOPs and non-salaried Individuals is to indirectly encourage corporatization of large businesses. In doing so, consideration has not been given to those AOPs which are not allowed to incorporate as a company owing to the restrictions under the laws applicable for respective professions. In the past, there were provisions which catered for this distinction either in the form of lower rate or allowing the partners to tax on individual basis. There is a need to examine this aspect before passing of the Finance Act.

The impact of proposed amendment in rates vis-à-vis salaried and non-salaried taxpayers is given in the following paragraphs.

SALARIED INDIVIDUALS (COMPARISON OF EXISTING AND PROPOSED RATES)

Sr No.	*Taxable income*	*Existing Incremental Rates*	*Proposed Incremental Rates*
1.	Upto Rs 600,000	-	-
2.	Exceeding Rs 600,000 upto Rs 1,200,000	2.5% of the amount exceeding Rs 600,000	5% of the amount exceeding Rs 600,000
3.	Exceeding Rs 1,200,000 upto Rs 2,200,000	12.5% of the amount exceeding Rs 1,200,000	15% of the amount exceeding Rs 1,200,000
4.	Exceeding Rs 2,200,000 upto Rs 2,400,000	12.5% of the amount exceeding Rs 2,200,000	25% of the amount exceeding Rs 2,200,000
5.	Exceeding Rs 2,400,000 upto Rs 3,200,000	22.5% of the amount exceeding Rs 2,400,000	25% of the amount exceeding Rs 2,400,000
6.	Exceeding Rs 3,200,000 upto Rs 3,600,000	22.5% of the amount exceeding Rs 3,200,000	30% of the amount exceeding Rs 3,200,000
7.	Exceeding Rs 3,600,000 upto Rs 4,100,000	27.5% of the amount exceeding Rs 3,600,000	30% of the amount exceeding Rs 3,600,000
8.	Exceeding Rs 4,100,000 upto Rs 6,000,000	27.5% of the amount exceeding Rs 4,100,000	35% of the amount exceeding Rs 4,100,000
9.	Exceeding Rs 6,000,000	35% of the amount exceeding Rs 6,000,000	35% of the amount exceeding Rs 6,000,000

The impact of the above-mentioned changes is illustrated as under:

Annual taxable income	Tax Year 2024		Tax Year 2025		Increase in tax	
(Rupees)	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate
600,000	-	-	-	-	-	-
1,200,000	15,000	1.25%	30,000	2.50%	15,000	1.25%
2,200,000	140,000	6.36%	180,000	8.18%	40,000	1.82%
2,400,000	165,000	6.88%	230,000	9.58%	65,000	2.71%
3,200,000	345,000	10.78%	430,000	13.44%	85,000	2.66%
3,600,000	435,000	12.08%	550,000	15.28%	115,000	3.19%
4,100,000	572,500	13.96%	700,000	17.07%	127,500	3.11%
6,000,000	1,095,000	18.25%	1,365,000	22.75%	270,000	4.50%
8,000,000	1,795,000	22.44%	2,065,000	25.81%	270,000	3.38%
10,000,000	2,495,000	24.95%	2,765,000	27.65%	270,000	2.70%
12,000,000	3,195,000	26.63%	3,465,000	28.88%	270,000	2.25%
15,000,000	4,245,000	28.30%	4,515,000	30.10%	270,000	1.80%

NON-SALARIED INDIVIDUALS / AOPs (COMPARISON OF EXISTING AND PROPOSED RATES)

Sr No.	*Taxable income*	*Existing Incremental Rates*	*Proposed Incremental Rates*
1.	Upto Rs 600,000	Rs. 0	Rs. 0
2.	Exceeding Rs 600,000 upto Rs 800,000	7.5% of the amount exceeding Rs 600,000	15% of the amount exceeding Rs 600,000
3.	Exceeding Rs 800,000 upto Rs 1,200,000	15% of the amount exceeding Rs 800,000	15% of the amount exceeding Rs 800,000
4.	Exceeding Rs 1,200,000 upto Rs 1,600,000	20% of the amount exceeding Rs 1,200,000	20% of the amount exceeding Rs 1,200,000
5.	Exceeding Rs 1,600,000 upto Rs 2,400,000	20% of the amount exceeding Rs 1,600,000	30% of the amount exceeding Rs 1,600,000
6.	Exceeding Rs 2,400,000 upto Rs 3,000,000	25% of the amount exceeding Rs 2,400,000	30% of the amount exceeding Rs 2,400,000
7.	Exceeding Rs 3,000,000 upto Rs 3,200,000	30% of the amount exceeding Rs 3,000,000	30% of the amount exceeding Rs 3,000,000
8.	Exceeding Rs 3,200,000 upto Rs 4,000,000	30% of the amount exceeding Rs 3,200,000	40% of the amount exceeding Rs 3,200,000
9.	Exceeding Rs 4,000,000 upto Rs 5,600,000	35% of the amount exceeding Rs 4,000,000	40% of the amount exceeding Rs 4,000,000
10.	Exceeding Rs 5,600,000	35% of the amount exceeding Rs 5,600,000	45% of the amount exceeding Rs 5,600,000

The impact of the above-mentioned changes is illustrated as under:

Annual taxable income	Tax Year 2024		Tax Year 2025		Increase in tax	
(Rupees)	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate	(Rupees)	Effective Tax Rate
600,000	-	-	-	-	-	-
800,000	15,000	1.88%	30,000	3.75%	15,000	1.88%
1,200,000	75,000	6.25%	90,000	7.50%	15,000	1.25%
1,600,000	155,000	9.69%	170,000	10.63%	15,000	0.94%
2,400,000	315,000	13.13%	410,000	17.08%	95,000	3.96%
3,000,000	465,000	15.50%	590,000	19.67%	125,000	4.17%
3,200,000	525,000	16.41%	650,000	20.31%	125,000	3.91%
4,000,000	765,000	19.13%	970,000	24.25%	205,000	5.13%
5,600,000	1,325,000	23.66%	1,610,000	28.75%	285,000	5.09%
6,000,000	1,465,000	24.42%	1,790,000	29.83%	325,000	5.42%
8,000,000	2,165,000	27.06%	2,690,000	33.63%	525,000	6.56%
10,000,000	2,865,000	28.65%	3,590,000	35.90%	725,000	7.25%
12,000,000	3,565,000	29.71%	4,490,000	37.42%	925,000	7.71%
15,000,000	4,615,000	30.77%	5,840,000	38.93%	1,225,000	8.17%

EXEMPTION OF PARTNER'S SHARE IN PROFIT OF AOP

Currently, share of a non-corporate partner is exempt from tax if the AOP has paid tax on its income. The Bill proposes to add a condition whereby such exemption would not be available to a partner of an AOP having turnover of Rs 300 million or above for the current tax year or any of the preceding tax years, if the AOP fails to submit financial statements audited by a Chartered Accountant or Management Accountant along with the return of income.

ADVANCE TAX ON PURCHASE OF SHARES OF UNLISTED COMPANIES

The Finance (Supplementary) Act, 2023 introduced withholding tax on acquisition of shares of unlisted Pakistani companies at the rate of 10% of the 'fair market value' of such shares determined in accordance with the prescribed procedure. In alignment with the charging and computational provisions of capital gains, the withholding tax is currently applicable at the time of payment.

Certain amendments are proposed whereby such advance tax is envisaged to be deducted at earlier of the following:

(a) At the time of payment; and

(b) At the time of registration of shares by the SECP or SBP, as the case may be.

PENALTY FOR A PERSON WHO FAILS TO PAY TAX AT THE TIME OF MAKING PAYMENT FOR SHARES ACQUIRED

Penalty has been proposed for person who fails to pay tax at the time of making payment as consideration of shares or at the time of registration of shares by the SECP or SBP, whichever is earlier.

Such person shall pay a penalty equal to 50% of the amount of tax involved.

TAXATION OF BANKING COMPANIES

Claim of Provisions against Non-Performing Loans (NPL)

Seventh Schedule was introduced with effect from tax year 2009 and has been amended from time to time. Banking companies are currently allowed provisions against NPL / bad debts under the category of 'loss' upto 1 percent and 5 percent of total corporate and consumer advances irrespective of the actual provisioning.

Effective January 1, 2024, SBP has mandated the implementation of IFRS 9. Following amendments have been proposed to maintain the status quo of deductions as under:

(i) Currently, 'bad debts' which are classified as 'sub-standard' and 'doubtful' under the Prudential Regulations of SBP are not allowed until the same are reclassified as 'loss'. The Finance Bill proposes to disallow any provision for advances, off-balance sheet items or any other financial asset classified in Stage I, II or III of the Expected Credit Loss (ECL) model under IFRS 9 or any other provision against performing, under-performing or non-performing assets recorded under any accounting standard;

(ii) Provisions or Expected Credit Loss for Advances and off-balance sheet items or any other financial asset existing before or after January 1, 2024 under IFRS 9 shall not be allowed as an expense or deduction;

(iii) It is also clarified that "bad debts" classified as "loss" pertaining to non-performing assets under the Prudential Regulations issued by the SBP shall be allowed as deduction.

The proposed amendments need to be reconsidered in the light of spirit of Schedular taxation regime for banking companies which was primarily based on the accounting profit declared in the audited financial statements.

Other Adjustments

This rule provides for exclusion of any adjustment on account of application of IAS 39 and 40 for the purposes of determining the taxable income of a banking company.

The references to accounting standards under this rule have been updated to broaden the scope whereby any adjustment made in accounts to comply with any applicable accounting standard (including IFRS 9) or any policy, guidelines or instructions issued by the SBP shall be disregarded.

As a result of this amendment, the claim of certain provisions will be allowed on realization basis.

Super Tax

The levy of Super Tax under section 4C was made applicable on the banking companies "from tax year 2023 onwards" by the Finance Act, 2023. These wordings led to a conflict as to whether the same would be applicable with effect from tax year 2023 or 2024. Similar dispute arose for insurance companies in relation to applicability of super tax for tax year 2022 and was decided by the Appellate Tribunal Inland Revenue in favour of the insurance company.

An explanation is now proposed to be inserted to provide that the levy of super tax shall be applicable "for tax year 2023 and for all subsequent tax years". However, there is a view that an explanation cannot adversely affect tax liability for the prior periods and therefore, this proposed amendment, if approved, will be subject to litigation.

THE TENTH SCHEDULE – RATES OF TAX FOR NON-FILERS

Under the existing provisions of the Tenth Schedule, rate of tax required to be collected or deducted is increased as under in the case of person not appearing in the ATL:-

a) In case of advance tax collected on motor vehicles (section 231B) and on purchase of immovable property (section 236K), the rate of advance tax is increased by 200% and 250% respectively; and

b) In all other cases (barring certain exceptions) where the rate of tax is prescribed in the First Schedule, the rate of tax is increased by 100%.

Enhancement of scope

The Bill proposes to broaden the application of Tenth Schedule to withholding taxes applicable under other provisions of the Ordinance for which the rates are not prescribed in the First Schedule such as capital gains on purchase of shares (section 37), indirect transfer of shares (section 101A), etc. The rates of tax provided for such withholding taxes will also stand enhanced by 100% in case of payments to persons not appearing in the name of ATL.

Increased rate for late-filers

A new category of late filers has been proposed for persons who are appearing on ATL but have not filed return by the due date or by the extended due date. This concept is, however, only applicable for advance tax collection in relation to transactions in immovable properties.

Proposed enhancement of withholding taxes from non-filers

The Bill proposes for tax to be withheld in respect of the following sections are proposed to be enhanced in the manner given below if the person is not appearing ATL:

S. No	Description	Existing	Proposed
1	Section 151 – On yield or profit on debt	30%	35%
2	Section 236G – On the gross amount of sale to distributors, dealers or wholesalers other than sale of fertilizers	0.2%	2%
3	Section 236H - On the gross amount of sales to retailers	1%	2.5%

Moreover, tax withholding in respect of capital gains on sale of listed shares and other securities (under section 37A) has been proposed to be included in the 'exception list' (Rule 10). Thus, the provisions relating to enhanced withholding tax would not apply in such cases.

ADVANCE TAX ON SALES TO DISTRIBUTORS, DEALERS, WHOLESALERS & RETAILERS

Currently, manufacturers, distributors, wholesalers and commercial importers of certain specified sectors are required to collect advance tax at the applicable rates from sales to distributors, dealers, wholesalers and retailers, as the case may be.

It is now proposed to extend the scope of above provisions to all business sectors. Furthermore, rates of tax collection in case of persons whose names are not appearing in ATL have also been revised upwards as indicated above.

TAX RATES ON DISPOSAL OF SECURITIES

Currently the rates of tax on capital gains on sale of listed shares and other securities are prescribed on the basis of holding period.

Capital gains on the securities acquired on or after July 1, 2024 are proposed to be taxed as under:

Category	*Proposed Rate*	
Persons appearing on ATL on the date of acquisition and disposal securities	Flat rate of 15%	
Persons not appearing on ATL on the date of acquisition and disposal securities	Individuals and AOPs	Higher of 15% or slab rates as specified in Division I of Part I to the First Schedule
	Company	Corporate Rate of tax as specified in Division II of Part I to the First Schedule

The taxation of the following remain unchanged:

i) Capital gains on the securities acquired between July 1, 2022 and June 30, 2024 would continue to be taxed as follows:

Holding Period	*Rate*
Less than 1 year	15 %
From 1 year to 2 years	12.5%
From 2 years to 3 years	10%
From 3 years to 4 years	7.5%
From 4 years to 5 years	5%
From 5 years to 6 years	2.5%
More than 6 years	0%

ii) Securities acquired before July 1, 2013, capital gains shall continue to be taxed at 0%; and

iii) For securities acquired between July 1, 2013 and June 30, 2022, the rate of tax prescribed at 12.5% remains unchanged.

INVESTMENTS IN MUTUAL FUNDS & REIT SCHEMES

Increase in tax on capital gains

Withholding tax on capital gains from Mutual Funds or REIT Scheme is proposed to be enhanced as tabulated below:

Category	*Existing Rate*	*Proposed Rate*
Individual and AOP	10% for stock funds 10% for other funds	15% for stock funds 15% for other funds
Company	10% for stock funds 25% for other funds	15% for stock funds 25% for other funds

In case of stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction is proposed to be at 20% as against the existing rate of 12.5%.

Currently, no tax on capital gains is to be deducted, if the holding period of the security is more than six years. This concession is now proposed to be restricted to only those securities which are acquired on or before 30th day of June 2024.

Increase in rate of tax / withholding on dividend

Tax rate and withholding in case of dividend from mutual funds deriving 50% or more income from profit on debt is proposed to be increased to 25% as against the existing rate of 15%.

RESTRICTION ON CLAIM OF SALES PROMOTION & ADVERTISEMENT EXPENSE

Under the existing provisions, royalty payable to an associate is allowed as a deduction as long as the same is in accordance with the arm's length principles. In case of a non-arm's length transaction, the Commissioner is empowered to disallow an expense in the hands of payer if the same exceeds the arm's length value of the transaction as determined in accordance with the prescribed methods. There is no restriction on claim of sales promotion and advertisement expense in such arrangements.

Through a proposed amendment, 25% of the total expenditure on account of sales promotion, advertisement and publicity shall be disallowed and allocated to an associate with whom an arrangement for royalty on certain intangibles is in place and the amount of such royalty is claimed as a deduction in the current tax year or any of the preceding two tax years. This amendment is proposed to be applicable for tax year 2024 and onwards.

In case of the above arrangements with non-resident associates, such allocation of expense would not be ordinarily admissible to him as his royalty income would have been charged to final tax regime. For non-residents protected by an applicable double tax treaty, it can be argued that no such allocation is permissible as long as the royalty itself is on arm's length basis. Furthermore, the applicability of this proposed provision for tax year 2024 needs to be examined in the light of principles relating to past and closed transactions.

ADVANCE TAX

Currently, in the case of AOPs and Companies, the amount of quarterly advance tax is required to be computed on the basis of turnover to tax ratio and in case of failure to provide such information or where the amount of turnover is not known, the quarterly turnover is taken as one fourth of 110% of the turnover of latest tax year for which return was filed. It is now proposed to enhance the threshold from 110% to 120%.

With regard to the provision allowing the taxpayers to file a lower estimate of advance tax, the powers of Commissioner to reject such estimate of the taxpayers is proposed to be restored. Similar powers were earlier in place from July 1, 2018 to June 30, 2021.

MINIMUM VALUE OF IMPORTS FOR COLLECTION OF ADVANCE TAX

Currently, for the purpose of collection of advance tax from imports, the value of imported goods is taken to be the customs assessed value as enhanced by customs duty and sales tax or where the goods are chargeable to sales tax on the basis of retail price, such price thereof.

It is now proposed to empower the Federal Board of Revenue to determine the minimum value of certain goods for the purpose of collection of such advance tax through a notification in official gazette. In case of such goods, the advance income tax shall be collected on the basis of such notified minimum value of goods as enhanced by customs duty and sales tax applicable thereon. In such cases, there could be different values of imported goods for the purpose of collection of indirect and direct taxes.

WITHHOLDING TAX RATES FOR TOLL MANUFACTURING

Through the Finance Act 2020, specific withholding tax rate was introduced in case of payment for toll manufacturing. Through the bill, the rates are proposed to be increased as under:

Taxpayer category	Existing	Proposed
Company	5%	9%
Others	5.5%	11%

WITHHOLDING TAX RATES FOR TELEPHONE AND INTERNET USERS

The FBR is inter alia empowered to disable mobile phones, discontinue electricity and gas connections in case of persons whose name are not appearing in the name of ATL but are liable to file income tax return. For this purpose, a general order can be issued by the FBR.

The withholding tax rate in case of persons appearing in the abovementioned general order is proposed to be increased from 15% to 75% of the amount of the bill / sale price of internet prepaid card / prepaid telephone card / sale of units to any electronic medium.

It appears that even if the person files his return of income and his mobile connection is restored in accordance with the process laid down in the above-referred general order, until his name is removed, he will be exposed to collection of enhanced withholding tax in the above manner.

TAX EXEMPTION EXTENDED FOR ERSTWHILE TRIBAL AREA RESIDENTS

The period of exemption on income of residents of erstwhile Tribal Areas was due to expire on June 30, 2024. The said exemption along with exemption from withholding tax is proposed to be extended for another year upto June 30, 2025.

INCREASE OF WITHHOLDING TAX RATES FOR DISTRIBUTORS OF CIGARETTES

It is proposed to increase withholding tax rate from 1% to 2.5% under section 153 of the Ordinance on gross amount of payment to distributors of cigarettes.

ADVANCE TAX ON PURCHASE, REGISTRATION AND TRANSFER OF MOTOR VEHICLES

Every Motor vehicle registering Authority is required to collect Advance Tax at fixed rates based on engine capacity (of upto 2000 cc) of the motor vehicles. For higher engine capacities, Advance Tax rates are based on value of the Motor vehicles.

Tax rates are proposed to be based on the value of Motor Vehicles for all engine capacities, as under:

S. No.	Engine capacity	Tax	
		Current	Proposed
1.	Upto 850 cc	Rs. 10,000	0.5% of the value
2.	851 cc to 1000 cc	Rs.20,000	1% of the value
3.	1001 cc to 1300 cc	Rs.25,000	1.5% of the value
4.	1301 cc to 1600 cc	Rs.50,000	2% of the value
5.	1601 cc to 1800 cc	Rs.150,000	3% of the value
6.	1801 cc to 2000 cc	Rs.200,000	5% of the value
7.	2001 cc to 2500 cc	6% of the value	7% of the value
8.	2501 cc to 3000 cc	8% of the value	9% of the value
9.	Above 3000 cc	10% of the value	12% of the value

WITHDRAWAL OF TAX CONCESSIONS

It is proposed to withdraw the following tax concessions:

(i) Subsidy income of a person received from Federal Government for the purposes of implementation of any orders of the Federal Government.

(ii) 25% tax credit available to certain full-time teachers or researchers, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government research institution.

TAX CREDIT ON COAL MINING PROJECTS IN SINDH

A tax credit equal to 100% of tax payable is inter alia available to persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects, subject to certain conditions. The Bill proposes to add an Explanation whereby such credit will be restricted to income derived by such persons from operation of aforesaid coal mining projects. The purpose of this Explanation is to exclude the non-operational income (such as interest income) of such persons from eligibility of tax credit.

RESTRICTION ON FOREIGN TRAVELS FOR NON-FILERS

A provision in the form of section 114B was introduced in 2021 whereby the Federal Board of Revenue was inter alia empowered to carry out certain actions through general orders in respect of persons whose names were not appearing on Active Taxpayers' List. Such actions included disabling of mobile phones and / or discontinuance of utility connections.

The Bill now proposes to further empower FBR to restrict foreign travels of such persons who are citizens of Pakistan. However, persons holding NICOP, minors, students and other classes of persons as notified by FBR shall be excluded from this restriction.

RATE OF DEFAULT SURCHARGE

The rate of default surcharge is proposed to be enhanced from 12% per annum to KIBOR plus 3%. Similar amendments have also been proposed in Sales tax and Federal Excise laws.

PENALTY AND PROSECUTION FOR A PERSON WHO FAILS TO FURNISH A FINAL RETURN IN CASE OF DISCONTINUATION OF BUSINESS

Penalty has been proposed for a person who fails to furnish a return of income of discontinued business as required by the Commissioner within the time specified in the notice. Such person is required to pay a penalty of 0.1% of the tax payable in respect of tax year for each day of default or Rs 1,000 per day of default, whichever is higher. However, minimum penalty has been proposed to be Rs 10,000 in case of an individual and Rs 50,000 in all other cases.

Such person shall also be considered to have committed an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year or both.

PENALTY AND PROSECUTION FOR SMALL TRADER OR SHOPKEEPER WHO IS REQUIRED TO APPLY FOR REGISTRATION UNDER THE ORDINANCE BUT FAILS TO REGISTER

Penalty has been proposed for a trader or shopkeeper who is required to apply for registration but fails to register or pay advance tax as specified in a scheme of special procedure prescribed under section 99B of the Ordinance, such as Tajir Dost Scheme. The shop of such person shall be sealed for 7 days for the first default and for 21 days for each subsequent default. Moreover, such trader or shopkeeper shall be deemed to have committed an offence punishable on conviction with fine or imprisonment for a term not exceeding 6 months or both.

PENALTY FOR FAILURE TO COMPLY WITH FBR GENERAL ORDER FOR DISCONNECTION OF UTILITIES, ETC.

Penalty has been proposed for a person who fails to comply with income tax general order issued by the Board in respect of persons who are not appearing on active taxpayers' list but are liable to file return under the provisions of the Ordinance within 15 days of the issuance of general order. Such person shall pay a penalty of Rs 100,000,000 for the first default and Rs 200,000,000 for each subsequent default. This proposed penalty appears to apply on utility companies and telecom sector companies if they fail to comply with the FBR's general order directing them to disconnect connections of delinquent taxpayers.

PENALTY AND PROSECUTION FOR COMPANY AND ASSOCIATION OF PERSONS WHO FAIL TO FURNISH INFORMATION IN RETURN OF INCOME

Penalty has been proposed for a company (including banking company) and an AOP who fails to fully state all the relevant particulars or information as specified in the form of return, including declaration of records, or furnishes any incomplete or blank annexure, statement or document as prescribed in sub section 2 of section 114 of the Ordinance.

Such company (including a banking company) and AOP shall pay a penalty of Rs 500,000 or 10% of tax chargeable on the taxable income, whichever is higher. Such persons shall also be deemed to have committed an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year or both.

AMENDMENTS MADE THROUGH TAX LAWS (AMENDMENT) ACT, 2024

Pecuniary Jurisdiction in Appeal

Through the Tax Laws (Amendment) Act, 2024, significant amendments were introduced to revamp the two-tier appeal system whereby pecuniary jurisdiction in appeal was introduced.

Now, appeal upto a certain threshold lies before the Commissioner Inland Revenue – Appeal (CIRA). Appeals on cases involving value of assessment of tax or refund exceeding the said threshold are directly to be filed before the Appellate Tribunal Inland Revenue (ATIR). A brief comparison is given below:

Forum of Appeal	Income Tax	Sales Tax	Federal Excise Duty
Commissioner Inland Revenue – Appeals	Not exceeding Rs 20 Million	Not exceeding Rs 10 Million	Not exceeding Rs 5 Million
Appellate Tribunal Inland Revenue	Exceeding Rs 20 Million	Exceeding Rs 10 Million	Exceeding Rs 5 Million

Reference to the High Court

Once an order is issued by the CIRA or the ATIR (subject to the given threshold), the matter can be contested directly before the High Court by the aggrieved person through a reference application stating the question of law or a mixed question of law and facts arising out of the order. The Commissioner shall not make any recovery of tax for 30 days from the date of communication of order of the CIRA or ATIR, as the case may be.

Other Significant Amendments

A brief summary of other significant amendments are given below:

(i) An appeal or a reference is required to be filed before the Tribunal or the High Court (as the case may be) within a period of 30 days from the receipt of the order.

(ii) Cases pending before the CIRA and having value of tax or refund exceeding the prescribed threshold will stand transferred to ATIR on and from June 16, 2024. Such cases are required to be decided within a specified period commencing from June 16, 2024.

(iii) ATIR shall decide appeal within 90 days of filing, except for those pending on the commencement of the Tax Laws (Amendment) Act, 2024, which should be decided within 180 days. If not decided within these periods, condonation from the Minister of Law and Justice is required, which shall not extend beyond 90 days.

(iv) The maximum period of stay granted by the ATIR has been reduced from 180 days to 90 days, however, the stay would remain effective till the decision of the appeal in case the appeal is not decided by the Tribunal within the statutory time limit.

(v) The ATIR is required to apprise the taxpayer about the option to pursue the matter in ADRC and incase, the taxpayer wishes to proceed with the appeal, a schedule will be prescribed for hearing and decision of appeal.

(vi) Federal Government has been empowered to appoint Chairman and Members of the ATIR. Earlier, such powers were vested with the Prime Minister of Pakistan. The person eligible to become a member ATIR has been revised in the manner that the distinction between the Judicial Members and Accountant Members have been removed.

(vii) On an application on a particular reference, the High Court may grant a stay from recovery of tax conditional upon deposit of at least 30% of the tax determined by the ATIR. Such stay order shall cease to have effect on the expiration of a period of six months unless the reference is decided or such order is withdrawn by the High Court.

(viii) State-Owned Enterprises (SOE) as defined under State-Owned Enterprises (Governance and Operations) Act, 2023 are mandatorily required to first apply to the Board for the appointment of a committee for the resolution of any dispute. An appeal to the ATIR or the High Court or the Supreme Court as the case may be, can be filed if the Committee fails to decide.

(ix) The provisions relating to ADRC has been revamped to cater for tax disputes amounting to Rs 50 Million or above for non-SOE taxpayers. Furthermore, ADRC decision will be binding on taxpayers.

(x) Establishment of a Directorate General of Law under both the Sales Tax Act, 1990 and the Federal Excise Act, 2005.

AMENDMENTS PROPOSED THROUGH THE FINANCE BILL 2024

Value of assessment of tax defined

The pecuniary jurisdiction of appeal has been introduced primarily on the basis of value of assessment of tax or the value of refund, however, the said terms were not expressly defined under the existing laws.

It has been proposed that the term 'value of assessment of tax' means the net increase in tax liability of a person as a result of order sought to be assailed and the term 'value of refund' means net reduction in refund as a result of order sought to be assailed.

Transfer of pending cases

As per the amendment introduced through the Tax Laws (Amendment) Act 2024, the cases pending before the CIRA (having value of assessment or tax refund of more than prescribed threshold for the respective tax law) shall stand transferred to ATIR on and from June 16, 2024. The last date for transfer of pending cases from CIRA to ATIR has been proposed to be changed to September 16, 2024. The said amendment shall be deemed to have taken effect from June 16, 2024.

Under the existing laws, the order of the CIRA is presently appealable before the ATIR. Certain corrective amendments have been proposed to categorically exclude such appellate orders from the scope of ATIR. It appears that such amendments have been proposed to remove the ambiguities.

Period of limitation

In order to resolve the controversy relating to the time limitation to be followed for filing an appeal before the Tribunal or the High Court in respect of the orders already received prior to the commencement of Tax Laws (Amendment) Act, 2024, it has been proposed that the time limitation as applicable prior to the introduction of Tax Laws (Amendment) Act, 2024 shall be applicable in such cases.

MATTERS NOT ADDRESSED THROUGH THE FINANCE BILL 2024

The following issues have not been addressed through the Finance Bill, 2024 and thus require clarity and redressal:

(i) There is no clarity on the jurisdiction of appeal forum of the orders having value of assessment of more than prescribed threshold but passed by the CIRA subsequent to the introduction of Tax Laws (Amendment) Act, 2024;

(ii) SOE is mandatorily required to first pursue the case in ADRC. Presently, a tax demand is deemed to have been stayed on the constitution of a Committee till its decision or dissolution. However, no such protection is presently available prior to the constitution of the Committee; and

(iii) Under the Sales Tax laws, no recovery proceedings can be initiated if the appeal is filed before the Tribunal (and not decided by the CIRA) and 10 per cent of the tax demand is paid. Similar protection is presently not available under the Income Tax law.

SALES TAX

Associates (associated persons)

Under the sales tax law, where the supplier and recipient are associates / associated persons and the supply is made for no consideration or at a consideration lower than open market price, the value of supply is taken to be the open market price. Furthermore, in case of transactions between associates, provisions similar to transfer pricing in Income tax law were introduced in 2021 for determination of arm's length pricing. The rules in this regard are yet to be framed by the FBR.

In the above context, the definition of associates / associated persons is proposed to be harmonized to bring the same in line with that contained under the Income Tax Ordinance and it has been proposed that the expression shall have the same meaning as defined in section 85(1) of the Income Tax Ordinance. The existing definitions under both the statutes were broadly similar in nature except that under the Ordinance, 'associates' also includes within its scope (i) the concept of 'sufficient influence'; and (ii) transactions executed with residents of 'zero taxation regime'.

The primary intent behind such proposed amendment appears to align the definition of terms under both the tax laws, however, the Bill has mentioned that such expression shall have the same meaning as defined under section 85(1) of the Ordinance only, thereby excluding certain categories of persons from the scope of such definition covered in other sub-sections, which were already there in the existing definition of 'associates' under the Act. Such anomaly is expected to be addressed at the time of passing of the Finance Act.

Tax fraud

The existing definition of 'tax fraud' provided for in the Act is quite general in nature and does not capture certain specific transactions/ events. The Bill now proposes to revamp the definition of 'tax fraud' by significantly enlarging its scope. The said expression is now proposed to mean intentional evasion of legally due tax or obtaining of undue refund by submission of false return, statements or false documents or withholding of correct information or documents and includes:

(i) suppression of sales/ receipts chargeable to tax under this Act;

(ii) false claim of input tax credit;

(iii) making taxable supplies without issuing any tax invoice, in violation of the provisions of this Act or the Rules;

(iv) issuance of tax invoice without supply of goods leading to inadmissible claim of input tax credit or refund;

(v) evasion of tax by availing undue input tax credit or obtaining inadmissible refund by any means/ methods other than that covered under clauses (i) to (iv);

(vi) collection of tax but failing to deposit the same in the prescribed manner beyond a period of three months from due date;

(vii) falsification or substitution of financial records or production of fake accounts or documents or furnishing of any false information through human, mechanical or electronic means with an intention to evade tax due or claim inadmissible refund;

(viii) tampering/ destroying any material evidence/ documents required to be maintained under this Act or the Rules through human/ digital means; or

(ix) acquisition, possession, transportation, disposal or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with, any goods in respect of which there are reasons to believe that these are liable to confiscation under this Act or the Rules.

Further, by way of an explanation, it has been proposed to clarify that any act or omission mentioned in this clause shall be treated as intentional unless the person accused of tax fraud proves that he had no intention, motive, knowledge, or reason to believe that he was committing a tax fraud.

Sales Tax on advances

Before amendment in the definition of 'time of supply' through Finance Act, 2021, sales tax was leviable at the time of earlier of 'receipt of payment' or 'delivery of goods'. Such mechanism of levy of sales tax was done away with through the Finance Act, 2021 with sales tax made leviable at the time of delivery of goods. The Bill now proposes to revert to the position applicable prior to amendment vide Finance Act, 2021.

These provisions have been a subject of amendment earlier also, as up till 2007 and then from 2013 to 2021, sales tax was chargeable at the earlier of delivery of goods or receipt of advance, though whilst between 2007 to 2013 sales tax was required to be charged on actual delivery of goods.

Value of imported goods

By virtue of amendments introduced vide Finance Act, 2019, 'retail price regime' was also made applicable on import of goods specified in Third Schedule. Under the provisions of section 2(46), Board is empowered to fix the 'value of supply' of any imported or local goods. The Bill now proposes that such power shall also be available to Board with respect to fixation of value of imported goods specified in Third Schedule. This amendment appears to be clarificatory in nature.

Appeal effects' orders

Section 11B of the Act governs the procedure for issuance of appeal effects' order etc. in consequence to directions issued by CIRA, ATIR, High Court or Supreme Court. The Bill now proposes to harmonize such provisions to bring these in line with those contained under section 124 of the Income Tax Ordinance. This amendment is apparently aimed to solidify these provisions and cover certain aspects relating to issuance of appeal effect/remand orders that are presently not covered in the existing provisions.

Best judgment assessment

The concept of 'best judgment assessment' broadly similar to that existing under the Ordinance is now proposed to be introduced under the Act. It is proposed that in cases where (i) a person fails to furnish a sales tax return in response to a notice; and (ii) fails to produce before the tax authorities any accounts, record or documents requisitioned under section 25, 25AB or 38A of the Act, the competent officer, after issuance of a show cause notice, based on any available/ material information, make an assessment of the tax payable/ refund to the best of his judgement.

Where best judgment assessment has been made for (i) above, and the person files the return along with deposit of due tax, the show notice/ assessment order shall abate.

It has also been proposed that in determination of a person's liability under Best judgement assessment, the officer shall determine such liability in accordance with the FBR's prescribed conditions for determination of such person's minimum tax liability, if applicable.

Assessment of tax

Presently, provisions relating to assessment of tax not levied/ short levied are covered under section 11 of the Act. Such section is now proposed to be revamped by bifurcating the same into three new sections i.e. section 11E, 11F, 11G of the Act.

- The newly proposed section 11E of the Act empowers the tax officer, not below the rank of Assistant Commissioner, to make assessment of tax along with penalty & default surcharge in cases where a person **for any reason** has (i) not paid or short paid due sales tax; (ii) claimed input tax credit or refund which is not admissible; or (iii) has obtained an amount of refund not due. This section further proposes to authorize the tax officer to disallow claim of input tax where the taxpayer fails to provide receipt or invoice or other record or evidence of the transaction giving rise to such claim. Apparently, the provisions contained in section 11(2) and (3) governing assessment in cases involving non/short payment of tax on account of collusion, deliberate act, inadvertence, error omission etc. have not been separately provided, for the reason that these stand covered under the expression 'for any other reason' as aforesaid.

- Section 11F of the Act proposes to enact provisions to enable recovery proceedings for sales tax not/short withheld or failure to deposit such tax by withholding agents. Such provisions are already part of the statute under section 11(4A) of the Act which is now proposed to be omitted.

- The proposed section 11G of the Act governs the time period within which show cause notice under sections 11D, 11E & 11F of the Act can be issued and provides the timeframe within which such proceedings are required to be concluded. These timelines are broadly similar to the ones presently ordained under section 11 of the Act.

De-registration, blacklisting and suspension of registration

The provisions of section 21 of the Act empower the Commissioner to blacklist or suspend a taxpayer in cases involving issuance of fake invoices or commission of tax fraud. At present, such action by Commissioner is appealable before the Appellate Tribunal. The Bill now proposes to empower the Chief Commissioner to examine the blacklisting order passed by Commissioner under section 21(2) and modify the same, if need be. Such an action may be proceeded with by the Chief Commissioner on his own motion or on the basis of application made by taxpayer. Corresponding amendments to this effect have also been proposed in provisions governing filing of appeals before Tribunal.

Audit of sales tax affairs

Through the Finance Bill, 2024, section 25 of the Act is proposed to be fully revamped. Presently section 25 of the Act primarily deals with access to the records by the tax authorities and inter-alia authorizes the officer of inland revenue to conduct audit on the basis of record obtained from the registered person by the Commissioner. The Constitutional Courts of the country while interpreting Section 25 of the Act have held that the case of a registered person cannot be selected for audit by the Commissioner without first obtaining record from the registered person. Prima facie, to nullify the effect of those judgements, the requirement to call for the records before selection of any case for audit is proposed to be done away with and the Commissioner is proposed to be authorized to direct an officer of Inland Revenue not below the rank of Assistant Commissioner ['audit officer'], on the basis of reasons to be recorded in writing, to carry out the audit of a registered person.

As regards the selection of a registered person for audit, the proposed section further stipulates that:

(i) The Commissioner, while intimating the registered person about selection for audit, shall also communicate the reasons for selection to the registered person;

(ii) The reasons for selection are required to be based on scrutiny of the records including sales tax and federal excise returns, income tax returns, withholding statements, financial statements or third party record;

(iii) The basis for selection should not be merely verification of input tax, output tax, refund claim and compliance to various legal provisions without identifying the risk factors requiring such verification; and

(iv) The Commissioner is under no legal obligation to provide an opportunity of being heard to the registered person while directing the audit officer to carry out the audit of a registered person.

As regards the conduct of the audit the proposed section provides that:

(i) The audit officer is permitted to call for any records or documents from the registered person inter-alia including the records maintained under the Act and the Rules made thereunder or maintained under any law for the time being in force;

(ii) The officer is authorized to conduct or cause to conduct inquiries from third party to obtain information/ documents required for conduct of sales tax audit of a registered person; and

(iii) No record of registered person can be requisitioned after expiry of six years from the end of the financial year to which they relate.

Presently, section 25 limits the conduct of an audit to once in a year. The proposed section, however, contains no such bar on the conduct of audit.

The proposed section authorizes the audit officer to conduct investigative audit under section 25AB of the Act with the approval of the concerned Commissioner if, during the audit, it is suspected that the registered person is involved in 'tax fraud', scope whereof is proposed to be substantially enhanced through the Finance Bill, 2024.

After carrying out the audit on the basis of documents/ information obtained from the registered person or any third party, the audit officer may pass an order for the assessment of tax not levied or short levied or erroneously refunded in terms of section 11E of the Act. However, in cases where the registered person fails to produce the requisitioned record/ information, the proposed amendment authorizes the audit officer to make a 'best judgement assessment' under section 11D proposed through the Finance Bill, 2024.

The provisions relating to voluntary deposit of short paid sales tax before and during the audit proceedings and the related relief in imposition of penalty remain to be the same.

Investigative Audit

Through the Finance Bill, 2024 a new section is proposed to be inserted, authorizing the conduct of investigative audit in the cases involving 'tax fraud'. The proposed section provides that in cases where, while carrying out the audit under section 25 of the Act, or otherwise, the audit officer, on the balance of probabilities, suspects that the registered person is involved in 'tax fraud', he may initiate investigative audit against such registered person subject to approval from the concerned Commissioner. The investigative audit is to be conducted within ninety days of its initiation.

In addition to passing of orders under section 11E & 11D, as a consequence of investigative audit, the officer is authorized to:

(i) Blacklist the registered person under section 21 of the Act; and
(ii) Impose penalty and cause prosecution of the registered person in terms of Serial No. 13 of the Table in Section 33 of the Act.

We consider that the proposed section 25AB employs vague and ambiguous language while empowering the officer to conduct investigative audit. Such terms vest the officer with discretionary powers relating to the investigative audit which may result in unwarranted & protracted litigation. Further, there is apparently a contradiction between the provisions of proposed section 25AB and section 21(2) of the Act in terms whereof the order of blacklisting can only be issued by the Commissioner.

Sales tax returns

Presently, the recourse available to taxation authorities for charging and collecting sales tax pertaining to prior tax periods *inter alia* where sales tax returns have not been filed is assessment of sales tax not levied or short levied. Such assessment proceedings, however, cannot be made for tax periods falling beyond five years of the end of the financial year in which the sales tax return was to be filed.

It is now proposed that any person who was required to file sales tax return but has failed to do so, may be required, through notice in writing, to furnish the sales tax return within the time allowed by the concerned assessing officer. While in case of tax fraud, a time limitation of fifteen years from the end of the financial year in which the return was to be filed has been proposed, in all other cases, time limitation of five years has been proposed.

Currently, the requirement for maintaining sales tax records under section 24 of the Act, is for a period of 6 years after the end of the tax period to which such record relate or till the finalization of assessment / appellate proceedings. Such requirement of record retention needs to be aligned with the proposed amendment of requiring taxpayers to file sales tax returns for upto prior 15 years.

Licensed integrator

Earlier, electronic invoicing for certain specified sectors was made mandatory by the Board through issuance of relevant SROs. In this respect, the related enabling provisions are now proposed to be inserted in law. Moreover, the concept of 'licensed integrator' is also proposed to be introduced to the effect that only such persons shall be eligible to provide electronic invoicing system for integration of registered persons who have been licensed by the Board in this respect.

Penalty

Tax fraud

Presently, the penalty in case of offences involving commission of 'tax fraud' is leviable at higher of Rs 25,000 or 100% of the amount of tax involved, in addition to imprisonment, upon conviction by a Special Judge, for a period upto 3 years or fine upto the amount of tax involved, or with both.

Now, it is proposed that the person who commits, causes to commit or attempts to commit 'tax fraud' shall be liable to pay a penalty at higher of Rs 25,000 or 100% of the amount of tax evaded or sought to be evaded. Such person as well as the person who abets or connives in commissioning of tax fraud, are also proposed to be liable, upon conviction by a Special Judge, to imprisonment:

- for a period upto 5 years in case the amount involved is not more than Rs 1 billion; and
- upto 10 years in case the amount involved is Rs 1 billion or above.

and fine upto the amount of tax evaded or sought to be evaded.

Integration with FBR/'Track & Trace'

Presently for any person involved in manufacturing, transporting, distributing, sale etc of certain specified goods with counterfeited stamps, banderoles, stickers, labels etc. or without the same, a penalty in the form of confiscation of goods has been prescribed without any conditions. Moreover, in the case of repeat sales of these specified goods, the premises is liable to be sealed for a period of 15 days. Further, for persons failing to have the business integrated under the 'track and trace system', the business premises is currently liable to be sealed till the date of integration. Now, for confiscation of counterfeited goods, sealing of premises with reference to involvement in counterfeited goods or failure to have the business integrated under the track and trace system, separate procedures are proposed to be prescribed, while no change in other penal provisions in this respect has been proposed.

Presently, certain penalties are leviable on Tier-1 retailers who are not registered under the Act or registered but have not integrated their system with the FBR. It is now proposed that such penalties may also be levied on persons or class of persons who are required by FBR to have their electronic invoicing system integrated but fail to do so.

Penalty at higher of Rs 1 million or 1% of the value of suppressed sales is proposed to be levied upon the 'licensed integrator' of electronic invoicing system who fails to perform integration in the prescribed manner.

For confiscation of retail goods not having retail price printed thereon or goods brought into Pakistan from tax exempt areas in violation of the prescribed rules, separate procedures are proposed to be prescribed. Earlier such confiscation was not subject any prescribed rules or procedures.

Others

It is also proposed that, notwithstanding the provisions of the Code of Criminal Procedure, 1898, the punishment for offences under the Act may extend upto period of 10 years.

Payment through banking channels

Presently, provisions of section 73 of the Act ordain that payment of the amount of any transaction exceeding Rs 50,000 shall be made through proper banking channel. In case such provisions are not complied with, the buyer is not entitled to claim adjustment of input tax credit, refund, repayment or draw back or zero rating of tax under the Act.

The Bill now proposes that such limit of Rs 50,000 is to be considered in aggregate. However, there is ambiguity as to whether the threshold of 'Rs 50,000 in aggregate' is with reference to a single tax period or in respect of a single supplier, an aspect that needs further clarity.

Third Schedule

Presently, supply of DAP is subject to sales tax at the rate of 5% *ad valorem*. Now, it is proposed that sales tax is made leviable on such supply on the basis of 'retail price'.

Fifth Schedule

Following goods are, presently, subject to sales tax at the rate of zero *per cent*:

- Milk (PCT heading 04.01);
- Fat filled milk (PCT heading 1901.9090); and
- Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021.

Through the Bill, it has been proposed the benefit of zero rating in respect of above goods is done away with. In consequence thereof, supply of above goods would become subject to sales tax at the rate of 18%, with the exception of milk, not sold under a brand name, which has been proposed to be exempted from levy of sales tax.

Furthermore, following goods as well as raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for manufacturing thereof are presently covered under zero-rated regime of sales tax:

- Preparations suitable for infants, put up for retail sale not exceeding rupees six hundred per two hundred grams (PCT Heading 1901.1000);
- Colors in sets (PCT heading 3213.1000);
- Writing, drawing and making ink (PCT heading. 3215.9010 and 3215.9090);
- Erasers (PCT heading 4016.9210 and 4016.9290);
- Exercise books (PCT heading 4820.2000);
- Pencil sharpeners (PCT heading 8214.1000);
- Other drawing, marking out or mathematical calculating instruments (geometry box) (PCT heading 9017.2000);
- Pens, ball pens, markers and porous tipped pens (PCT heading 96.08); and
- Pencils including color pencils (PCT heading 96.09)

Additionally, import or supply of above-mentioned finished goods is also exempt from sales tax.

Through the Bill, it has been proposed that sales tax exemption and zero-rating provided for in respect of such goods and related raw materials, components etc. is withdrawn and supply of such finished articles is made subject to sales tax at a reduced rate of 10%, with the exception of 'preparations suitable for infants' that would become chargeable to sales tax at the standard rate of 18%.

Sixth Schedule to the Act

Through the Bill, following imports and supplies are proposed to be exempted from sales tax:

Description	Heading
Import of all goods received, in the event of a natural disaster or other catastrophe, as gifts and relief consignments or any goods received as gift or donation from a foreign government or organization by the Federal or Provincial Governments or any public sector organization. Subject to the recommendations of the Minister Incharge and concurrence by the Federal Board of Revenue subject to condition that the concerned Ministry shall verify the genuineness of such cases and furnish an undertaking to the effect that donated goods shall not be sold, utilized or disposed of otherwise than for the purpose for which the same have been imported.	9908(i) and 9911
Import or supply of POL products: (i) MS (Petrol) (ii) High Speed Diesel Oil (iii) Kerosene (iv) Light Diesel Oil	2710.1210 2710.1931 2710.1911 2710.1921
Local supply of iron and steel scrap	7204.4100 7204.3000 7204.4990

Withdrawal of exemptions

Through the Bill, sales tax exemption presently available in respect of import and supply of following goods is proposed to be withdrawn:

a) Edible vegetables imported from Afghanistan including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned;

b) Fruit imported from Afghanistan excluding apples PCT 0808.1000; and

c) Cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment as detailed in the relevant entries.

In addition to above, following goods presently exempt from sales are proposed to be subjected to sales tax at a reduced rate of 10%:

- Import or supply of newsprint and books but excluding brochures, leaflets and directories;
- Import or supply of oil cake and other solid residues;
- Import or supply of tractor;
- Local supply of vermicillies, sheer mal, bun and rusk, excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers; and
- Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal.

Further, the proposed rate of sales tax on local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal will be subject to the condition that refund of input tax shall not be admissible.

Exemptions relating to erstwhile tribal areas

Sales tax exemption available in respect of following supplies and imports is expiring on June 30, 2024:

(i) Supplies meant for consumption in tribal areas;

(ii) import of plant, machinery, equipment for installation in tribal areas;

(iii) import of industrial inputs by the Industries located in tribal areas;

(iv) Supplies of electricity to all residential and commercial consumers in tribal areas; and

(v) Supplies of electricity to such industries (excluding steel and ghee or cooking oil industries) in the tribal areas which were set up and started their industrial production before March 31, 2018.

Now, the Bill proposes levy of sales tax on such supplies at the rate of 6% from July 1, 2024 to June 30, 2025 and 12% from July 1, 2025 to June 30, 2026.

Exemptions relating to charitable hospitals

Goods (excluding electricity and natural gas) supplied to hospitals run by charitable hospitals of fifty beds or more and goods imported by hospitals run by non-profit making institutions are presently exempt from sales tax. Now, the Bill proposes to withdraw such exemption.

Eighth Schedule

At present, sales tax is chargeable in respect of following goods at a reduced rate:

Description	Present rate of sales tax
LPG (import thereof and local supplies of such imported LPG)	10%
Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	15%
Locally manufactured Hybrid electric vehicles: (a) Upto 1800 cc (b) From 1801 cc to 2500 cc	 8.5% 12.75%

Through the Bill, it has been proposed that the above goods be made subject to sales tax at standard rate of 18%.

The Bill also proposes that imported personal computers and laptop computers, notebooks (whether or not incorporating multimedia kit) are made subject to sales tax at a reduced rate of 10%.

Pharma sector

Owing to amendments introduced through Finance Act, 2023, medicaments as are classifiable under Chapter 30 of the First Schedule to Customs Act, 1969, with certain exceptions, are presently subject to sales tax at a reduced rate of 1%. Through the Bill, it has been proposed that reduced rate of sales tax as mandated through earlier enactment is reversed and the same shall be leviable to standard rate of 18%.

Ninth Schedule

Through the Bill, rate of sales tax on supply of cellular mobile phones or satellite phones is proposed to be enhanced. Details regarding existing and proposed rates are tabulated below:

Existing Rates

Description / Specification of Goods	Sales tax on CBUs at the time of import or registration (IMEI number by CMOs)	Sales tax on import in CKD/SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4)
A. Not exceeding US$ 30 (excluding smart phones)	Rs. 130	Rs. 10	Rs. 10
B. Not exceeding US$ 30 (smart phones)	Rs. 200	Rs. 10	Rs. 10
C. Exceeding US$ 30 but not exceeding US$ 100	Rs. 200	Rs. 10	Rs. 10
D. Exceeding US$ 100 but not exceeding US$ 200	Rs. 1,680	Rs. 10	Rs. 10
E. Exceeding US$ 200 but not exceeding US$ 350	18% ad valorem	Rs. 1,740	Rs. 10
F. Exceeding US$ 350 but not exceeding US$ 500	18% ad valorem	Rs. 5,400	Rs. 10
G. Exceeding US$ 500	25% ad valorem	Rs. 9,270	Rs. 10

Proposed Rates

Description/Specification of Goods	Sales tax on CBUs at the time of import or registration (IMEI number by CMOs)	Sales tax on import in CKD/SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4)
A. Not exceeding US$ 500	18% ad valorem	18% ad valorem	18% ad valorem
B. Exceeding US$ 500	25% ad valorem	18% ad valorem	18% ad valorem

In addition to above, the Bill has also proposed to allow adjustment of input tax incurred by purchaser and importer, in respect of mobile phones and related input goods, against the sales tax payable under this schedule.

Eleventh Schedule

Withholding sales tax on lead batteries

Rate of sales tax to be withheld by the registered manufacturer of lead batteries buying lead/ scrap batteries has been proposed to be enhanced from 75% to 80%.

Further, it has been proposed that sales tax is withheld in respect of following items at 80% of applicable sales tax:

Withholding agent	Supplier category
Registered persons manufacturing cement	Persons supplying any kind of gypsum under Chapter 25 or limestone flux under chapter 25
Registered Persons	Persons supplying any kind of coal under Chapter 27
Registered Persons	Persons supplying any kind of waste of paper and paper board
Registered Persons	Persons supplying any kind of plastic waste
Registered persons	Persons supplying crush stone and silica

At present sales tax withholding is not applicable on supplies made by an active taxpayer as defined in the Act, except for advertisement services. Through the Bill it has been proposed that sales tax withholding would apply on following supplies/ services from active taxpayers to another registered person:

(i) advertisement services;

(ii) supply of lead or scrap batteries to manufacturer of lead batteries;

(iii) supply of any kind of gypsum to cement manufacturers;

(iv) supply of coal;

(v) supply of waste paper and paper board;

(vi) supply of any kind of plastic waste; and

(vii) supply of crush stone and silica.

FEDERAL EXCISE DUTY (FED)

ALLOTMENT OR TRANSFER OF COMMERCIAL AND RESIDENTIAL PROPERTIES

A new entry is proposed to be added to the list of excisable goods whereby FED is proposed to be levied at 5% on allotment or transfer of commercial and residential properties in such mode and manner and subject to such conditions and restriction as may be prescribed by the Board.

It appears that the amendment made in section 3 of the FE Act through Finance Act, 2023 whereby the scope of charging provision was extended to any item not covered by goods or services is now given effect by way of imposing FED on immovable properties. If the aforesaid levy is enforced on immovable properties situated in provinces, the legislative competence of the Federal Government may have to be examined by the Courts under the Constitutional provisions.

OFFENCES AND PENALTIES

The Finance Bill proposes to impose fine on a person who installs or removes plant and machinery having value of Rs. 50 million and above without prior permission of Commissioner which may extend to Rs 50,000 or five times of the duty involved whichever is higher and imprisonment which may extend to five year or both.

The Finance Bill proposes to seal the retail outlet of a retailer selling cigarettes packs without affixing, or affixing counterfeited, tax stamps, banderoles, stickers, labels or barcodes in a manner as may be prescribed.

FIRST SCHEDULE

TABLE I: DUTIABLE GOODS

New entries

The Finance Bill proposes imposition of FED on the following:

S. No	Description	HS Code	Proposed duty
7a.	Acetate tow	Respective heading	Rupees forty-four thousand per kg
8d.	Nicotine pouches	Respective heading	Rupees one thousand and two hundred per kg

Enhancement of FED rate

The Finance Bill proposes to enhance FED on the following dutiable goods as tabulated below:

Description	*HS Code*	*Existing duty*	*Proposed duty*
E-liquids by whatsoever name called, for electric cigarette kits.	Respective heading	Rupees ten thousand per kg	Rupees ten thousand per kg or sixty five percent of retail price whichever is higher
Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	25.23	two rupees per kilogram	three rupees per kilogram
Filter rod for cigarettes	Respective headings	Rupees fifteen hundred per kg	Rupees eighty thousand per kg

Proposed increase in retail price of cigarettes

The Finance Bill proposes to increase the retail price for different tiers of cigarettes manufactured in Pakistan as tabulated below, resulting in retaining different brands in the same tiers despite price increase due to inflationary factors:

Sr no.	Rates of Duty	Existing Description	Proposed Description
9.	Rs 16,500 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 9,000 per 1,000 cigarettes.	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 12,500 per 1,000 cigarettes.
10.	Rs 5,050 per 1,000 cigarettes	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 9,000 per 1,000 cigarettes.	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 12,500 per 1,000 cigarettes.

It appears that for certain categories of cigarettes, despite the increase in retail price the incidence of FED has not been amended proportionately.

Restriction on new cigarettes brand variant

To avoid ambiguity in the definition of brand variant under the FE Act, the Finance bill proposes to introduce an explanation to the effect that brand variant means any cigarette brand with similar logo, name, colour, design, pattern or any unique distinguishing mark associated with the existing brand family".

TABLE I TO THE THIRD SCHEDULE: GOODS

The Finance bill proposes to exempt imports of following goods by diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts, Orders, Rules, Regulations and Agreements passed by the Parliament or issued or agreed by the Government of Pakistan.

PCT heading	Description
99.01	Goods imported by various agencies of the United Nations under the united nations (privileges and immunities) Act, 1948 (Act XX of 1948), as certified by the Ministry of Foreign Affairs
99.02	Goods imported by diplomats/embassies/ consulates under the Diplomatic and Consular Privileges Act, 1972 (Act IX of 1972) as certified by the Ministry of Foreign Affairs
99.05	Household articles and personal effects including vehicles and goods for donation to projects established in Pakistan, imported by the rulers and dignitaries of UAE and Qatar and Bahrain subject to specified conditions

CUSTOMS ACT

ESTABLISHMENT OF DIRECTORATES

It has been proposed to establish the Directorate General of National Targeting Centre (NTC) and the Directorate General of Trade Based Money Laundering (TBML).

DELEGATION OF POWERS

The Bill has proposed that the Board may delegate any of its functions and powers to the Chairman or empower by name or designation:

(a) any Member or Director General to exercise the powers of the Board or Chairman;

(b) any Collector of Customs to exercise any of the powers of a Chief Collector of Customs under this Act

ENTRUSTMENT OF FUNCTIONS OF CUSTOMS OFFICERS

It has been proposed to entrust the functions of the customs officers to the officers of the National Command Authority and Pakistan Nuclear Regulatory Authority for the purpose of implementation and enforcement of the Customs Act, 1969.

ASSISTANCE TO THE CUSTOMS OFFICERS

It has been proposed to add Intelligence Bureau (IB) in the list of Government agencies empowered to assist Customs officers in discharge of their functions.

VALIDATION OF EXEMPTION NOTIFICATIONS

The validity of exemption notifications issued on or after July 1, 2016 (that were placed for ratification before the National Assembly) is proposed to be extended from June 30, 2024, to next fiscal year i.e. up to June 30, 2025.

PROVISIONAL DETERMINATION OF LIABILITY

Provisional determination of value is not allowed in cases where a Valuation Ruling (VR) issued under section 25A is in field irrespective of the fact whether any review / revision against such VR is pending. It has now been proposed to extend the said restriction of provisional determination of value also where "Publication Valuation Rulings (PVR)" is in field.

PUNISHMENT FOR OFFENCES

Smuggling of nuclear and radioactive material:

To prevent smuggling of nuclear and radioactive material, certain punishments have been proposed. In addition to confiscation of smuggled goods, imprisonment and fine may apply in case of breach of national security. Broadly, the imprisonment may extend from seven years to life, while the fine may range between 1 to 5 million rupees.

For nuclear material, the punishment depends upon its quantity and form as defined in the regulation on Physical Protection of Nuclear Material and Nuclear Installations – (PAK/925), while for radioactive material, it would depend on the activity to dangerous value ratio as defined in the regulations on Security of Radioactive Sources - (PAK/926) or any amendment therein determined by PNRA.

Obstruction/hindrance in the discharge of duty or exercise of power:

Presently, a fine of Rs 25,000 together with imprisonment up to two years is applicable on a person who obstructs or hinders in discharge of any duty or exercise of power including falsely accusing, implicating, threatening, molesting, assaulting an official of customs, impeding the search of anything, damages anything liable to confiscation or prevents the detention of someone. This fine is now proposed to be enhanced to Rs 100,000 or more.

Illegally removed, exchanged, pilfered or disposed goods:

It is proposed that:

- a person who holds or is in-charge of '***smuggled goods'*** that are liable for confiscation and seizure, is found removing them illegally, exchanging, pilfering or disposing them of in any manner, such person shall be liable to a penalty not exceeding **ten times** the value of goods. The person upon conviction shall also be liable to imprisonment up to six years or to a fine not exceeding 10 million rupees or both.

- a person who holds or is in-charge of '***goods other than smuggled goods***' that are liable for confiscation and seizure, is found removing them illegally, exchanging, pilfering or disposing them of in any manner, such person shall be liable to a penalty not exceeding **two times** the value of goods. The person upon conviction shall also be liable to imprisonment up to six months or to a fine not exceeding 50 thousand rupees or both.

APPEALS & REVISIONS

To streamline the procedure in appeals in line with the amendments introduced under the Income Tax, Sales Tax and Federal Excise laws through the Tax Laws (Amendment) Act, 2024, the Bill has proposed the following changes.

Appellate Tribunal

The members of the Appellate Tribunal are proposed to be appointed by the Federal Government (earlier by the Prime Minister). The Federal Government may also prescribe rules of procedure for the Appellate Tribunal including constitution of benches, case management system, distribution of cases.

The Bill has proposed to revise the existing eligibility criteria for the appointment of technical and judicial members of the Tribunal. The newly proposed criteria is as under:

(a) An advocate of a High Court for not less than fifteen years having expertise in Customs Laws and experience of pleading at least fifty Customs cases at various forums;

(b) An officer of the Customs Service of Pakistan in BS-21 or above; or

(c) An officer of the Customs Service of Pakistan in BS-20, having served in such grade for three years or more.

It is proposed that the Chairman of the Appellate Tribunal (possessing qualification referred in (a) above) shall be appointed by the Federal Government for a period of three years. Members (including the Chairman) shall cease to hold office on attaining the age of 62 years or the age of superannuation where applicable.

Appeals to the Appellate Tribunal

Presently, an appeal before the Appellate Tribunal can be filed within 60 days from the communication date of the order, accompanied by a fee of Rs 1,000. To expedite this process, the Bill has proposed to reduce the appeal filing timeframe to 30 days and increase the appeal filing fee to Rs 20,000 for a company and Rs 5,000 for other than a company.

Stay granted by the Appellate Tribunal can remain operative for a period of 180 days unless withdrawn earlier or on disposal of appeal. The said period has now been proposed to be restricted to 90 days.

The Bill has proposed that appeal against the order passed by the Director General Customs Valuation under section 25D shall be heard by a bench of at least two members one Judicial Member and one technical Member, to be presided by the Chairman himself. However, if the Chairman is unable to preside due to special / extra-ordinary reasons, the Chairman may reconstitute the Bench.

Presently, an appeal is required to be decided within sixty days of filing the appeal or within such extended period as the Tribunal may fix for reasons to be recorded in writing. This timeframe in cases of 'smuggling' is 30 days. The Bill has proposed to decide appeals in all cases within 90 days of filing of appeal. The said period can be extended for a further 60 days with the consent of both parties and for reasons to be recorded in writing.

It is proposed that the Tribunal shall decide the appeal on the dates fixed and no adjournment shall be granted except where there are compelling reasons to be recorded in writing and upon payment of such cost (not less than Rs 50,000) as the Appellate Tribunal may deem fit.

The Bill proposes to reduce the timeframe for the Appellate Tribunal, from 1 year to 15 days from the date of the communication of the order to rectify any clerical, arithmetical errors or error arising therein from accidental slip and omission apparent from the record.

The order of the Appellate Tribunal has been proposed to remain pending for thirty days, if the Collector or other party to the appeal, prefers a reference to the High Court within this period.

Alternative Dispute Resolution

It has been proposed that the application for Alternate Dispute Resolution (ADR) shall be accompanied by an initial proposition for dispute resolution by the applicant, including an offer of payment of duties and taxes.

Presently, ADR is not available in situations where first information reports (FIRs) have been lodged. It has been proposed to eliminate the said restriction to allow ADR even if FIR has been lodged as long as criminal proceedings have not been initiated.

The Bill proposes reduction in the timeframe for the Board to appoint a committee from 30 days of receipt of the application to 15 days.

The current committee composition consists of, inter-alia, Customs officer not below the rank of Chief Collector regardless of jurisdictional relevance to the specific case. The Bill has now proposed that the concerned officer (not below the rank of Chief Commissioner) shall be the one having jurisdiction over the case.

The committee includes a member nominated by the applicant from a panel notified by the Board which comprises experienced chartered accountants, advocates and reputable businessmen (nominated by Chambers of Commerce and Industry). It has been proposed that the notified panel would include officer of Customs Service who stood retired in BS 21 or above.

The appointment order of the committee has now been proposed to be communicated by the Board to the aggrieved person.

Presently, the committee is required to decide the dispute within 90 days of its constitution. To expedite dispute resolution, the Bill has proposed to shorten this period to 45 days (extendable by another 15 days for the reason to be recorded in writing).

The aggrieved person, if satisfied with the committee's decision, is required to withdraw the pending appeal and communicate the withdrawal to the Collector within 60 days, failing which the order shall not be binding on the Collector. The said period has been proposed to be reduced to 30 days.

Reference to High Court

Currently, a reference before the High Court can be filed on a question of law within 90 days from the communication date of the order. To expedite this process, the Bill has proposed to reduce the reference filing timeframe to 30 days including question of law or a mixed question of law and fact arising out of order of the Appellate Tribunal.

The existing fee for filing of reference application is also proposed to be increased from Rs 100 to Rs 50,000.

The Bill has proposed that recovery of duty shall not be made by the Collector for 15 days from the date of communication of the order of the Appellate Tribunal.

It is also proposed to require the applicant to file a complete record of the Appellate Tribunal within 15 days of preferring a reference application.

AMENDMENTS PROPOSED IN FIRST SCHEDULE TO THE CUSTOMS ACT

Rationalization of Customs duty

PCT code	Description	Existing %	Proposed %
2710.1931	High speed diesel oil	10*	0
2711.1100	Natural gas	5*	0
7311.0040	Containers for aerosol products	11	16
8413.7019	Other parts of Submersible pumps having diameters other than 5 to 10 inches	3	0
9004.9090	Other Spectacles, goggles and the like corrective, protective	3	11
9018.3989	Other Syringes, needles, catheters, cannulae	0	20
9004.9010	Night vision goggles	3	11
9018.3981	Blood collection tube of glass	0	20
9018.3982	Blood collection tube of PET	0	20

**As per Fifth Schedule*

Zero Rating

Following changes have been made with respect to zero rating:

(i) Zero-rating of import of Ship bunker oil by the Concession holder at Gwadar port, is proposed to be extended to their operating companies, contractors and sub-contractors, subject to certain conditions.

(ii) Zero rating is proposed to be provided for reimportation of duty paid containers used for transportation of export cargo.

(iii) Withdrawal of zero rating on import of medical herbs (including heing and zeera) from Afghanistan for subsequent export.

Other amendments

- It is proposed that exemption from customs duty prescribed for gifts / donations received by the federal / provincial / public sector organization, shall be allowed only on verifications / undertaking from the concerned ministry as to the genuineness of such cases and utilization of goods for the intended purpose.

- Chief Collector of Customs is proposed to be empowered to extend the time limit for re-export of goods imported temporarily in Pakistan with a view to subsequent exportation.

AMENDMENTS PROPOSED IN FIFTH SCHEDULE (CONCESSION/ EXEMPTION)

New Exemptions

Customs duty on import of following is proposed to be exempted subject to certain conditions:

(i) Machinery and equipment including raw materials (parts) for the manufacture of PV modules / solar inverters / lithium ion batteries subject to certain conditions and quota determination / approvals.

(ii) Drug named "Bovine Lipid Extract Surfactant" by Pharma sector.

(iii) Livestock for research purposes.

(iv) Machinery and equipment for fish or shrimp farming and seafood processing.

(v) Certain machinery and equipment for fish or shrimp farming and seafood processing.

(vi) Live (baby / brood stocks) fish and shrimp/prawns for breeding and production in commercial farms and hatcheries.

Withdrawal of exemption / concession

It is proposed to withdraw exemptions / concessions allowed for the following goods

(a) Concessionary rate of 10% on fresh and dry fruits except apples from Afghanistan;
(b) Cane sugar;
(c) Wheat;
(d) Import of beet sugar;
(e) White Crystalline beet sugar;
(f) White Crystalline cane sugar;
(g) Printed Circuits; and
(h) Concessionary rate of 25% on electric vehicles (4 wheelers) with value exceeding USD 50,000.

Increase in Customs Duty

It is proposed to withdraw exemption from customs duty and to provide concessionary rates on import of the following goods:

PCT code	Description	Existing %	Proposed %
8534.0000	Bare Metal Clad Printed Circuit Board (MCPCB)	0	11
8529.9090	Glass board for manufacturing TV panels (LCD, LED, OLED, HDI etc.)	0	10

ANNOUNCEMENT MADE BUT NOTIFICATION / AMENDMENTS AWAITED

Announcement in respect of the following has been made through the salient features issued along with the Finance Bill, however relevant notifications / amendments to that effect are awaited.

Regulatory duties (RD)

(i) Increase / levy of RD on the following:

a) Flat rolled products of iron and non-alloy steel.
b) Certain items used in local manufacturing.

(ii) Withdrawal of exemption of RD on import of:

a) ground nuts and margarine imported by Food Confectionary.
b) Sliver cans and Lollipop sticks.

(iii) Rationalization of RD on import of new and used vehicles.

(iv) Continuation of RD on import of Chloroparafins liquid.

Additional Customs Duty

- Additional customs duty is proposed to be levied on localized auto parts to incentivize local manufacturing sector.
- Additional customs duty is proposed to be exempted on import of raw materials of Fluids and Powders for use in Hemodialyzers.

Withdrawal of concessions

It is proposed to withdraw concession on customs duty on import of Hybrid Vehicles.

PETROLEUM LEVY

Through the FB, the maximum rate of Petroleum Levy (which forms part of 'fuel price') as specified in the Fifth Schedule to the Petroleum Products (Petroleum Levy) Ordinance, 1961 is proposed to be enhanced (besides introducing the minimum rates) on certain products as under:

S. No.	Petroleum Product	Unit	PRESENT	PROPOSED	
			Maximum	Minimum	Maximum
			(Rupees per unit)		
1	High Speed Diesel Oil (HSDO)	Litre	60	60	**80**
2	Motor Gasoline	Litre	60	60	**80**
3	Superior Kerosene Oil (SKO)	Litre	50	50	50
4	Light Diesel Oil (LDO)	Litre	50	50	50
5	High Octane Blending Component (HOBC)	Litre	50	50	50
6	E-10 Gasoline	Litre	50	50	50
7	Liquefied Petroleum Gas (produced / extracted in Pakistan)	Metric ton	30,000	30,000	30,000