

## Budget Flash 2024



***This document contains our brief comments on the proposed amendments introduced through Finance Bill, 2024 in the fiscal laws. Our detailed comments will follow in a separate document which will be released in due course. The comments in this document may not be taken to be our opinion on the proposed amendments.***

*Ilyas Saeed & Co. Chartered Accountants  
Lahore: June 12, 2024`*

## Key Announcements

*Some of the key announcements from the budget are:*

**Total Outlay:** The total budget outlay is set at Rs18.87trn for FY25, up 25%.

**GDP growth target:** GDP growth target of 3.6% for FY25 (vs. provisional GDP growth of 2.4% in FY24). Govt. expects Agriculture, Industrial & Services sector to grow by 2.0%, 4.4% and 4.1%, respectively during FY25.

**Fiscal Deficit:** The govt. estimating a Fiscal Deficit at Rs7.3trn, 5.9% of GDP (6.8% excluding provincial surplus) for FY25 compared to estimated Fiscal Deficit of Rs7.8trn, 7.4% of GDP (7.9% excluding provincial surplus) in FY24.

**Current Account:** Government projects Current Account Deficit of US\$3.7bn for FY25, which will be higher than FY24 as it is expected to be a year of surplus of US\$100-200mn

**Development Expenditure:** Development expenditure is estimated at Rs3.8tn for FY25, +58% YoY; within this, federal PSDP is kept at Rs1.5tn, +80% from revised figure for FY24.

**Current Expenditure:** Total Current Expenditures are estimated at Rs17.2trn for FY25, up 21% from revised estimates of FY24.

**Defense Expenditure:** The Defense Expenditure has been set at Rs2.1trn for FY25, 14% higher compared to Rs1.86tn for FY24.

**Revenue:** FBR Tax Revenue target has been set at Rs12.97trn up +40% for estimated collection of Rs9.25tn in FY24. This is higher than average growth of 20% in last five years.

# Income Tax

## **Important amendments proposed by the Government are as under: -**

- For over 30 years exports of goods have been subjected to a very low final tax and tax deducted by bank on export proceeds realization was deemed to be the final discharge of tax liability, however, through Finance Bill it is proposed that tax deducted on export proceeds will be considered as minimum tax. This means that henceforth exports will be taxed at the normal rate of 29% in the case of companies and 45% in case of Individual/AOP. Super tax, if applicable will also be considered.
- Capital gains on the disposal of immovable property acquired after July 1, 2024 are proposed to be subject to tax at the rate of 15% of the amount of gain. In the case of non-filer minimum rate of not less than 15% and maximum as per slabs rates applicable for individuals/AOP & companies @ 45% & 29% respectively plus super tax if applicable as well.
- For the first time in the fiscal history of Pakistan, all kinds of capital gains are proposed to be taxed at the rate of 15% for all capital gains on securities acquired after July 1, 2024. In the case of non-filer minimum rate of not less than 15% and maximum as per slabs rates applicable for individuals/AOP & companies @ 45% & 29% respectively plus super tax if applicable as well.
- Tax rates on non-salaried income have been increased & the maximum tax rate has been proposed at 45% before super tax, if applicable.
- For Salaried individual although total no of slabs proposed to be the same, however slab upper limits along with tax rates proposed to be changed from existing ones ranging from 2.5% to 35% with slabs ranging from 5% to 35%.
- Deduction of advance tax from the consideration paid or payable against acquisition of shares of unlisted company proposed to be made at the time of payment or at the time of registration of shares by SECP or by the SBP, whichever is earlier.

## Income Tax-Continue

- *Income of AOP having turnover Rs 300 Million or more which is exempt from tax under Section 92 of the Ordinance is proposed to be available to members of AOP only when the audited financial statements have been filed with income tax return.*
- *Proposal for restriction on foreign travel, for a citizen of Pakistan excluding persons having NICOP, minors, students and other classes of persons as notified by the FBR for non-filing of return if they are liable to file return of income.*
- *Presently the Commissioner of Income Tax was allowed to issue a 'Nil' withholding certificate in cases where conditions under the law are complied. The concept of 'Nil' withholding is being dispensed with and now it is proposed that only a reduced rate certificate can be issued.*
- *The tax credit for That Coal under Section 65F proposed to be available only to income from coal mining projects supplying coal to power generation projects.*
- *A new provision has been inserted whereby payments to associates on account of use of brand , logo etc will be disallowed to the extent of 25%.*
- *Resident Individuals are required to file details of Foreign Assets in their Wealth Statement despite foreign assets are already included and a statement of foreign assets under 116A was required to be annexed.*
- *Cutoff date for transfer of appeals pending before Commissioner (Appeals) to Appellate Tribunal involving amount exceeding Rs. 20 million proposed to be extended from 16 June 2024 to 16 September 2024.*
- *Commissioner has been empowered to reject the lower estimate of advance tax filed by taxpayer in certain cases.*
- *Proposal to empower the FBR to determine the minimum value of goods for the purpose of collection of advance income tax on imports.*

## Income Tax-Continue

- At present manufacturers and commercial importers of certain sectors were required to collect advance tax from the, distributor, dealer and wholesaler, Retailers of certain sectors were also subject to collection of advance tax. It is proposed now that advance Tax under Section 236G & 236H has been made applicable to all distributor, wholesaler, dealer and retailer irrespective of their business sector..
- Penal provisions proposed for non-compliance with Tajir Dost Scheme, blocking of SIMs/utility connection and other non-compliances.
- Rate of tax on dividend received from mutual funds proposed to be enhanced from 15% to 25% in case 50% or more of income of mutual fund is derived from profit on debt with corresponding change in withholding tax provision.
- Proposal for increase in withholding tax rates on capital gain by mutual funds and REIT Schemes from 10% to 15%.
- Advance tax collection rates in case of vehicle purchased proposed to be collected as a percentage of value of vehicles instead of fixed amounts.
- Tax collection on sale or purchase of immovable properties proposed to be collected at varying rates based on consideration received or fair market value instead of fixed rate. Similarly, rates for persons not appearing on the ATL proposed to be enhanced manifold. Further separate rate of tax collection on sale or purchase of immovable property proposed for persons who though are on the ATL but did not file their returns of income within the due date or who are considered as 'late filers'.
- There is a reduction in the rate of tax for a full time teacher. It is proposed to be withdrawn.
- Withholding tax rate for distributors of cigarettes proposed to be enhanced from 1% to 2.5%
- The exemption from tax and withholding provisions which is expiring on June 30, 2024 is proposed to be extended to June 30, 2025.

## **Income Tax-Continue**

- *Losses of PIA from 2017 are proposed to be carried forward for a period of 10 years instead of 6 years.*
- *Tenth Schedule is a prescription of prohibitive rate of collection/ withholding in cases where the person is not in the active taxpayers list. Substantial changes are proposed in this schedule.*
- *For Non-performing Loans in Banking Companies it is proposed that;*
  - *Any non-performing loan so classified in the financial statement of a banking company subject to tax under the Seventh Schedule as per IFRS 09 shall not be treated as an allowable expense.*
  - *This provision seems in contradiction with the primary concept of the Seventh Schedule where financial statements as furnished to the State Bank of Pakistan form the basis of determining the tax liability. Furthermore there is adequate safeguard in other provisions of the Seventh Schedule to this effect.*
  - *Furthermore the proposed insertion that only the amount treated as loss shall be allowed as deduction is again, against the primary theme of the Seventh Schedule.*

# Sales Tax

## ***Important amendments proposed by the Government are as under: -***

- *At present advances received as not subject to sales tax. In that past, such advances were proposed as supplies which were subsequently deleted. Now it is again proposed that sales tax incidence will be there at the time of receipt of advances.*
- *Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976) and medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) except the following, even if medicated or medicinal in nature, namely:- (a) filled infusion solution bags imported with or without infusion given sets; (b) scrubs, detergents and washing preparations; (c) soft soap or no soap; (d) adhesive plaster; (e) surgical tapes; (f) liquid paraffin; (g) disinfectants, and (h) cosmetics and have been made from the 1st day of July, 2022 are subject to sales tax at the rate of 1% without any input tax. It is proposed that henceforth the reduced rate and special system will be applicable only for 'Substances registered as drugs under the Drugs Act, 1976 (XXXI of 1976)'. Other items are now subject to full rate of tax.*
- *Proposal to abolish sales tax zero rating and exemption on certain items which have been either made subject to standard rate or reduced rate.*
- *The provisions concerning assessment and audit revamped vesting more discretionary powers in revenue officers.*
- *Proposal to enhance the scope of 'tax fraud' by introducing specific instances which may constitute tax fraud, which was previously defined broadly.*
- *DAP fertilizer shall be subject to tax under the Third Schedule which is retail price*

## **Sales Tax-Continue**

- *Standard rate of sales tax proposed on retailers of textile and leather which are integrated with the FBR's computerized system for real time reporting of sales.*
- *Sales tax withholding at 80% proposed for certain sectors (such as coal, cement, crush stone silica etc.).*
- *The default surcharge rate will be calculated as KIBOR plus 3% replacing the previous fixed rate of 12%.*
- *Enhancement of sales tax @ 18% on LPG and locally manufactured Hybrid Electric Vehicles.*
- *Proposal to charge sales tax at 18% ad valorem on certain categories of cellular phones.*
- *The zero-rating of petroleum products is transforming to a sales tax exemption.*
- *Exemption from tax on local supplies has been omitted and a new rate has been prescribed for;*
  - i. Vermicularis, sheemal, bun etc (10% new rate proposed)*
  - ii. Poultry feed, cattle feed, sunflower seed meal, rapeseed meal and canola seed meal (10%)*

## Federal Excise Duty

***Important amendments proposed by the Government are as under: -***

- *Federal Excise duty at the rate of 5% is proposed to be imposed on allotment or transfer of commercial property and first allotment or transfer of residential property in such mode and manner and subject to such conditions and restrictions as may be prescribed by the Board. However an immovable property is a subject having a special connotation under the Federal Legislative List. Therefore it would have to be constitutionally decided whether or not any excise duty can be levied on immovable property.*
- *Penal provision for sealing of retail outlet where cigarettes packs are sold by the retailer without affixing tax stamps, stickers, labels or barcodes has been introduced.*
- *Federal Excise Duty of Rs.44,000 per KG has been imposed on Acetate tow (Fiber used primarily in cigarette filters)*
- *Federal Excise Duty of Rs.1,200 per KG has been imposed on Nicotine pouches.*
- *Threshold of Retail price for imposing of Federal Excise Duty on Locally produced cigarette has been increased from 9000 per thousand cigarettes to 12500 per thousand*
- *Federal Excise Duty on Cements has been increased to Rs.3 per KG from Rs.2 per KG.*
- *Federal Excise Duty on Filter rod for cigarettes has been increased to Rs.80,000 per KG from Rs.1,500 per KG.*
- *Federal Excise Duty of Rs.15/- per KG has been imposed on sugar supplied to a manufacturer.*

# Customs

***Important amendments proposed by the Government are as under: -***

- *Concession of customs duties on import of fresh and dry fruits proposed to be withdrawn.*
- *Withdrawal of concessions of duties on import of Hybrid Vehicles proposed.*
- *Proposal for reduction in concession of customs duties on import of Electric vehicles having value above USD 50,000.*
- *Incentivizing manufacturing of Solar Panels and Allied Equipment proposed.*
- *Extension in scope of exemptions on import of machinery and equipment for farming and processing of Fish / Shrimp and Seafood proposed.*
- *Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector.*
- *Increase of Customs duty on Import of Containers for Aerosol Products proposed.*
- *Rationalization of Customs duty on import of parts of submersible pumps proposed.*
- *Rationalization of Customs duties on import of Wheat, Sugar, HSD, LNG proposed.*
- *Proposal for exemption of Customs duties on Bovine lipid extract surfactant.*

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