YOUSUF ADIL
PACE ALIGNED ...
Budget 2024-25
Highlights & Comments
Tax

Foreword

This publication contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, Sales Tax, Federal Excise and Customs Duty.

Amendments proposed in the Finance Bill, 2024 will take effect from July 01, 2024, once it is approved by the Parliament.

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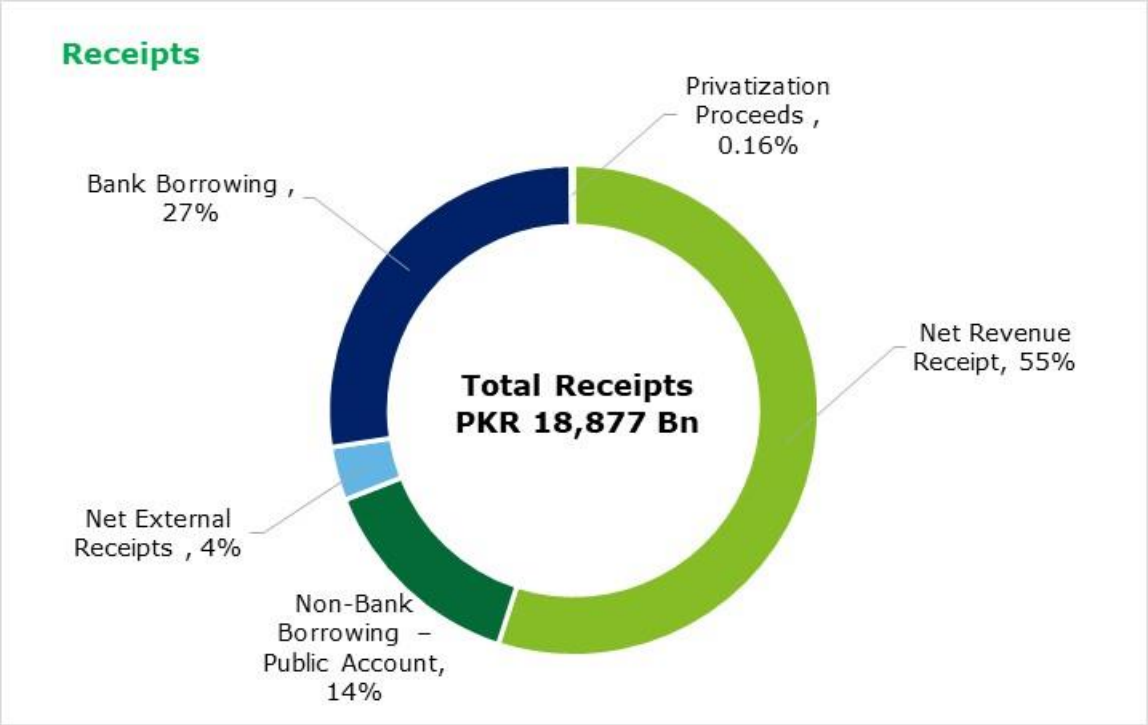
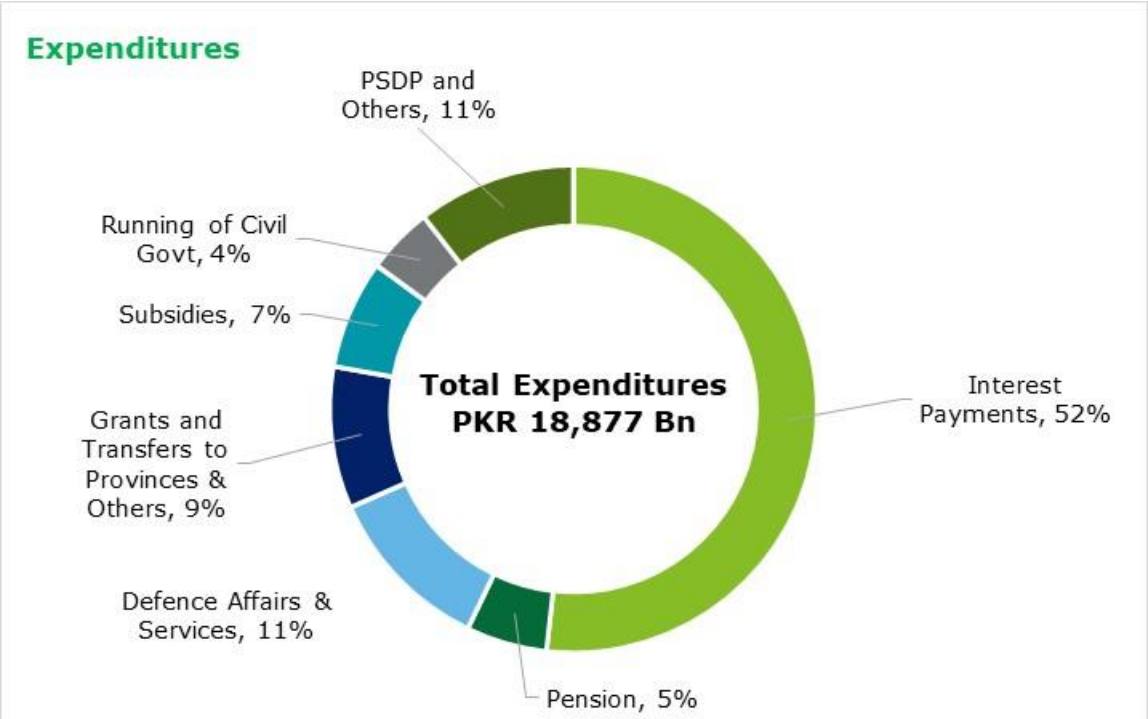
Budget at a glance

Receipts	PKR (Billion)	Expenditures	PKR (Billion)
Tax Revenue	12,970	Interest Payments	9,775
Non-Tax Revenue	4,845	Pension	1,014
Provincial Share	(7,439)	Defence Affairs & Services	2,122
Net Revenue Receipt	**10,376**	Grants and Transfers to Provinces & Others	1,777
Non-Bank Borrowing – Public Account	2,662	Subsidies	1,363
Net External Receipts	666	Running of Civil Govt.	839
Bank Borrowing	5,142	PSDP and Others	1,987
Privatization Proceeds	30		
Total Receipts	**18,877**	**Total Expenditures**	**18,877**

Source: Budget Document



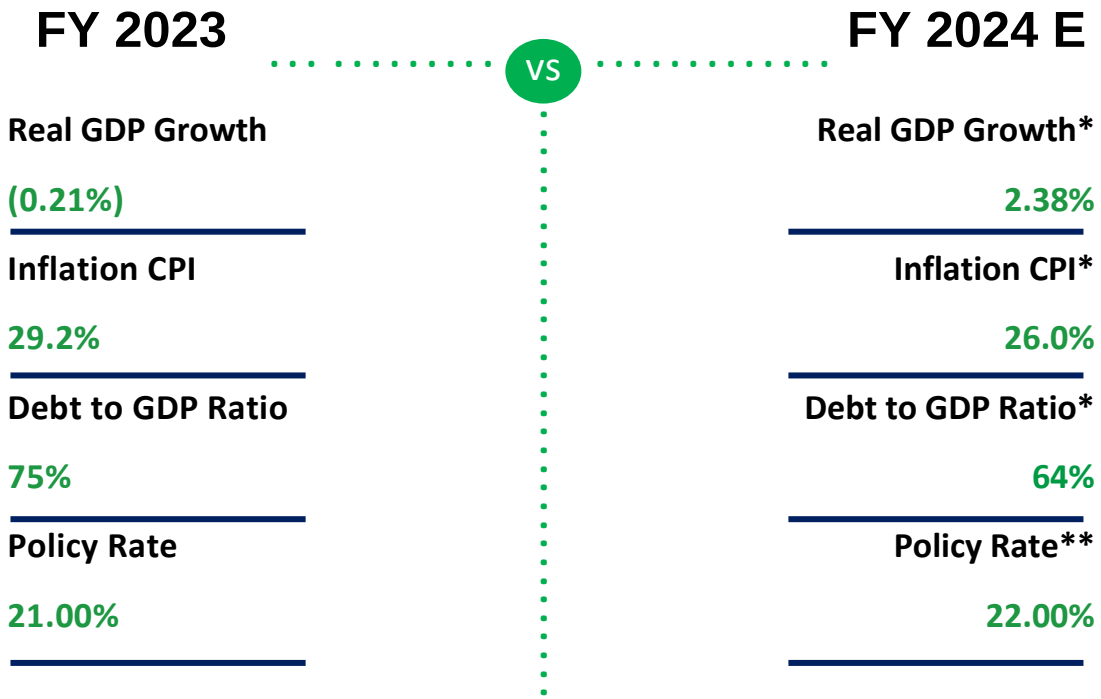
Source: Budget Document



Source: Budget Document

Economic Review 2023-24

The first budget of the newly elected PMLN coalition government for FY2024-25 was presented on June 12, 2024 by the Finance Minister, Muhammad Aurangzeb with aggregate total outlay of PKR 18.9Tn that envisages FBR Tax Revenue of PKR 13.00Tn, including public sector development program of PKR 1.4Tn and debt servicing of PKR 9.8Tn.



* *These metrics reflect the period from July to March 2024.*

** *This metric reflects the period from July to May 2024. As per MPC meeting held in June 2024, the Policy Rate was revised to 20.5%.*

Overview

The global economy demonstrates remarkable resilience, characterized by steady growth as inflation gradually moves towards the target. This journey has been marked by significant events, including supply-chain disruptions in the wake of the pandemic, a Russian-Ukraine conflict leading to a global energy and food crisis, and a substantial surge in inflation. Furthermore, central banks worldwide have synchronized their monetary policy tightening efforts. Despite numerous pessimistic and gloomy forecasts, the global economy capably avoided a recession.

Global economic growth has slowed down from 3.5% in 2022 to 3.2% in 2023 and is projected to continue at the same pace in 2024 and 2025, below the historical (2000–19) annual average of 3.8%. Global inflation is expected to fall from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025. In response to inflationary pressures, major central banks have implemented restrictive policy measures by raising interest rates.

Geopolitical tensions have emerged as the predominant risk facing the global economic landscape. Presently, conflicts in Eastern Europe and the Middle East, critical hubs for global food and energy distribution, pose imminent challenges. The specter of escalating tensions in the Middle East evokes profound concern, particularly considering the region's pivotal role, accounting for nearly 30% of the world's oil production. Recent disruptions in the Red Sea have already hampered shipping via the Suez Canal, which facilitates almost 30% of global container traffic. The challenge for policymakers' lies in securing macroeconomic stability and sustaining debt levels while navigating geopolitical hurdles and promoting growth in the medium term.

Recent years have been characterized by exacerbated challenges for Pakistan 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.

In FY 2022, Pakistan's economy experienced an unsustainable 6.1% growth rate driven by domestic demand, leading to high fiscal and current account deficits, and signaling excessive demand and overheating. Additionally, the economy suffered a significant setback due to the catastrophic floods in FY 2023, which not only obliterated growth prospects but also inflicted extensive damages equivalent to 4.8% of GDP. The CPI inflation for the period July-April FY 2024 recorded at 26.0% as against 28.2% during the same period last year.

During the fiscal year of 2024, the economy of Pakistan has commenced on a stabilization phase. Government's 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. Moving forward, the newly elected government is putting efforts to leverage this stability by maintaining robust macroeconomic policies and implementing structural reforms to achieve stronger, more inclusive, and sustainable growth.

On the external front, the current account showed improvement, with the current account deficit decreasing from USD 3.9Bn last year to USD 0.2Bn in July-April FY 2024. This improvement was due to a 10.6% increase in exports and a 5.3% drop in imports of goods. According to the SBP data, remittances increased by 3.5% to USD 23.8Bn, contributing to the current account balance improvement. Additionally, Pakistan's financial account performance improved as the country successfully increased its foreign reserves and achieved stability in the exchange rate, which is crucial for overall economic stability.

While on the fiscal front, revenue growth exceeded expenditure growth during the first nine months of FY 2024. Both tax and non-tax collections saw significant increases of 29.3% and 90.7%, respectively. Additionally, efforts to limit non-mark-up spending led to an improvement in the primary surplus to PKR 1,615.4Bn (1.5% of GDP) during July-March FY 2024, up from PKR 503.8Bn (0.6% of GDP) last year. The overall fiscal deficit remained at 3.7% of GDP, consistent with the previous year's figure.

The government targets to ensure sustainable economic growth through reinforcing public finances, efficient taxation, increasing investments in education, healthcare, social safety nets, and climate resilience initiatives. To ensure a sustainable energy future, the government plans to implement reforms aimed at lowering energy costs and enhancing sector efficiency. Public service delivery will be improved through the restructuring and potential privatization of state-owned enterprises. Furthermore, the government is committed to creating conducive environment for private sector investment by ensuring fair competition and enhancing governance. These comprehensive reforms underscore the government's commitment to building a resilient and prosperous Pakistan for its citizens.

(Data Sources: PES, 2023-24)

Real GDP

GDP over the years

2021	2022	2023	2024E
5.77%	6.18%	(0.21%)	2.38%

(Data Source: PES, 2023-24)

(Data Source: PES, 2023-24)

During FY2024, Pakistan's economy registered moderate recovery reflected by a GDP growth of 2.38% against previous year's contraction of 0.21%. The real, fiscal, and external sectors, as well as financial markets, have demonstrated resilience and steady improvement.

GDP Growth 2023-24

3.5% Budget

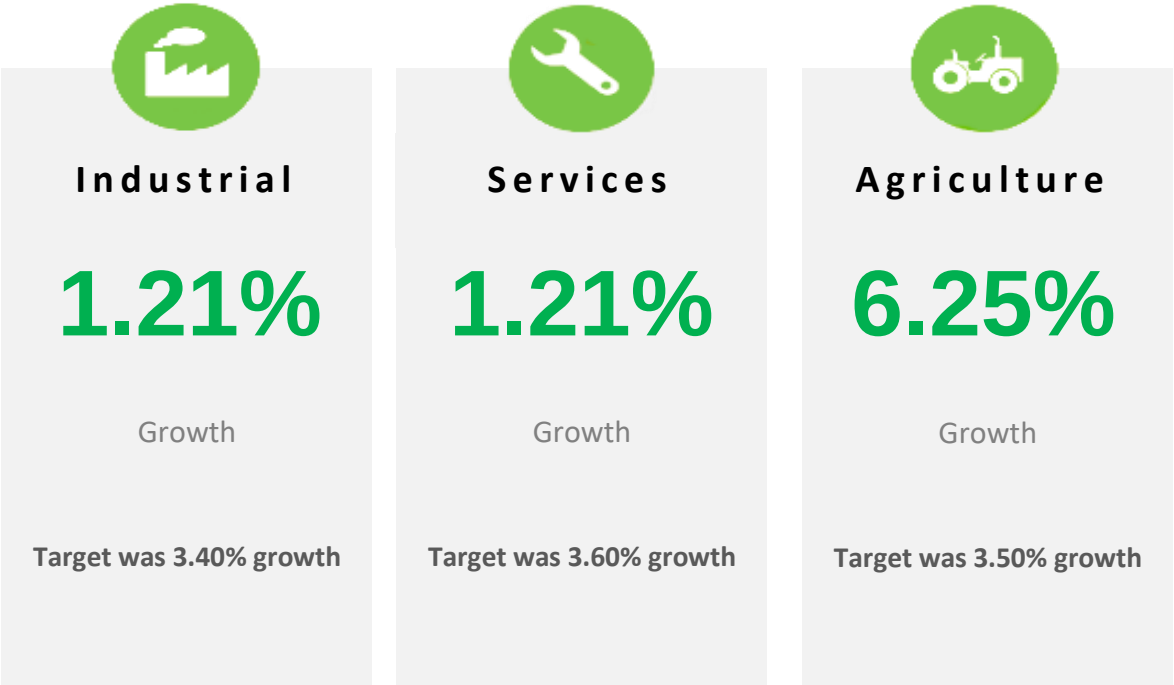
2.38% Actual

(Data Source: PES, 2023-24 & Annual Plan 2023-24, Ministry of Planning Development & Special Initiatives (MPDSI))

Pakistan's real GDP stood at 2.38% in FY2024. The agriculture sector showed strong growth and expanded by 6.25% compared to 2.27% growth last year. Furthermore, both the industrial and services sectors grew by 1.21%. The per capita income rose to USD 1,680 from USD 1,551 in previous year, driven by the improved economic activity and a stable exchange rate.

(Data Source: PES, 2023-24)

Sector Performance



(Data Source: PES, 2023-24, Annual Plan 2023-24, (MPDSI))

The Industrial Sector improved by 1.21% in FY 2024, compared to a contraction of 3.74% last year. Industrial sector performance is mainly driven by the manufacturing sector (2.42%) and construction sector (5.86%). Almost 50% of sub-sectors have recovered and posted positive growth. Manufacturing activity started to recover in FY2024, but still remained below the potential due to weak market sentiments, global supply disruptions, and heavy reliance on imports. In addition, rising input costs, a struggling textile sector, lower government spending, high inflation, and elevated policy rates compounded the issue. This was further strained by political and economic uncertainty before the election and subdued global demand. Large Scale Manufacturing (LSM) declined by 0.1% during Jul-Mar FY2024 compared to decline of 7.0% last year.

The services sector has constituted the largest share of GDP, 58%, for the last several years. It has posted modest growth of 1.21% during FY 2024, compared to -0.01% last year, but with mixed industry trends. Wholesale and retail trade (0.32%), transportation and storage (1.19%), lodging and food services activities (4.10%), information and communication (-3.02), finance and insurance activities (-9.64%), real estate activities-OD (3.78%), public administration and social security-general government (-5.25), education (10.30%), human health and social work activities (6.80%), and other private services (3.58%) are the subsectors of services with the corresponding shares in services and GDP.

The agriculture sector, which has experienced the strongest development in the past 19 years, has emerged as the primary catalyst for economic growth in FY2024. The key driver of this growth is the 16.82% growth in major crops including cotton, rice, and wheat. The production of rice (34.8%), wheat (11.6%), and cotton (107.2%) is responsible for the increase in the output of major crops (16.82%). However, sugarcane and maize declined by 0.4% and 10.4%, respectively, which can be partially attributed to the crop switching. Other crops have also shown a growth of 0.90% as compared to the contraction of 0.92% last year because of growth in fruits (8.40%), vegetables (5.77%) and pulses (1.45%). Cotton ginning, having a share of 1.34% in the agriculture sector and 0.32% in GDP, grew by 47.23% on the back of high growth in cotton production. Livestock, with a significant share of 60.84% in agriculture and 14.63% in GDP, grew by 3.89% compared to 3.70% last year. Forestry, having a share of 2.33% in agriculture, grew by 3.05% compared to 16.63% last year. Fishing, with a sectoral share of 1.30% has shown a growth of 0.81% against 0.60% during last year.

(Data Source: PES, 2023-24)

Trade & Payments

Current Account

	FY 23	FY 24E
Current Account First 9 Months of FY	($4.1) Bn	($0.5) Bn

(Data Source: PES, 2023-24)

In July-March FY2024, the current account deficit was substantially contained, decreasing by 87.5% to USD 0.5Bn compared to USD 4.1Bn recorded in the preceding year. This reduction resulted from a rise in exports coupled with a continued decline in imports. Consequently, gross foreign exchange reserves swelled to USD 8.0Bn by March 2024, marking a significant increase from USD 4.4Bn recorded in June 2023. Additionally, the PKR appreciated by around 3.0% until March 2024, compared to end June 2023.

Remittances saw rise of 18.3% in Q3FY24 and 9.0% in Q2FY24, following a steep 19.8% fall in Q1. Since October 2023, remittances have been trending upward because of exchange company-related structural reforms and the ensuing convergence of the interbank and open market exchange rates. Despite an increase in the primary income account deficit, the trade balance, workers' remittances, and other current account components have improved.

In July-March FY2024, exports of goods increased by 9.3% to USD 23.0Bn, while imports of goods declined by 8.0% to USD 38.8Bn.The trade-in goods deficit is contained at 25.2% to USD 15.8Bn as compared to USD 21.1Bn last year. The services account deficit reached USD 1.66Bn in July-March FY2024 as against USD 374Mn last year. The substantial reduction in the goods trade imbalance was mostly due to a sharp decline in imports of products, which was a result of reduced global commodity prices, import management policies, and the impact of decreased local demand. It is also crucial to remember that a significant increase in food category exports was the main factor in the export growth.

(Data Source: SBP & PES, 2023-24)

(Data Source: SBP)

Financial Account

In July-March FY2024, Pakistan experienced inflows in Financial Account amounting to USD 4.2Bn, contrasting with outflows of USD 1.1Bn in the previous year. The improved inflows in the financial account in July-March FY 2024 materialized amid the successful implementation of reforms agreed as part of the Stand-By Arrangement (SBA) with IMF. The increase in CAD and financial support from bilateral and multilateral development partners have resulted in the building of foreign reserves. Specifically, reserves increased to USD 8.0Bn by the end of March 2024 from USD 4.4Bn at the end of FY2023. The better performance of the external sector, coupled with the accumulation of foreign reserves, has instilled renewed confidence in the Pakistani rupee. Thus, the average monthly PKR against USD was appreciated by 2.8% during July-March FY 2024.

(Data Source: PES, 2023-24)

Whereas, in the preceding fiscal year, the outflow was observed in the financial account, owing to the delay in completion of the IMF's Extended Fund Facility (EFF) program and tight global financial conditions, other multilateral and bilateral creditors withheld their financing to Pakistan.

(Data Source: PES, 2023-24)

In Pakistan, FDI fell in the period under consideration owing to political and economic instability. Apart from political and economic stability, a significant outflow of USD 173.2Mn was observed in January 2024 due to the aggressive pull-out of investment from power projects, mainly by China. Cumulatively, FDI inflows (including reinvested retained earnings) declined by 9.7% to USD 1.1Bn during July-March FY 2024 compared to USD 1.2Bn in the same period last year.

(Data Source: PES, 2023-24)

In March 2024, FDI witnessed an increase of 89.3% and was recorded at USD 258.0Mn against an inflow of USD 136.3Mn last month as the newly elected government took charge. The inflows of FDI reached USD 1.9Bn during July-March FY 2024 compared to USD 2.0Bn last year, which decreased by 2.9%. The outflows of FDI during July-March FY 2024 increased by 7.5% and reached USD 860.1Mn compared to USD 799.9Mn in the same period last year.

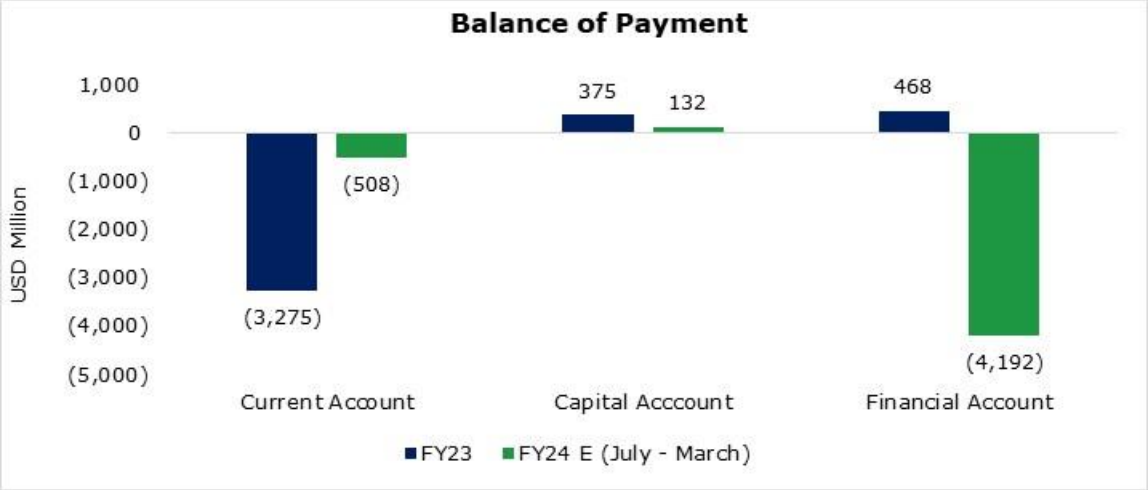
(Data Source: PES, 2023-24)

During July-March FY 2024, there was a net inflow of USD 165.0Mn in the Foreign Portfolio Investment (FPI), compared to an outflow of USD 1,014.7Mn in the corresponding period of the previous year. There has been an increase in recent months due to the positive performance of the stock market.

(Data Source: PES, 2023-24)

SBP's net liquid reserves had deteriorated to USD 4.4Bn at the end of FY 2023. The sharp contraction in the current account deficit during July-March FY 2024, supported by official inflows, helped reserves increase to USD 8.0Bn as of the end of March 2024 despite the debt payment.

(Data Source: PES, 2023-24)



(Data Source: PES, 2023-24)

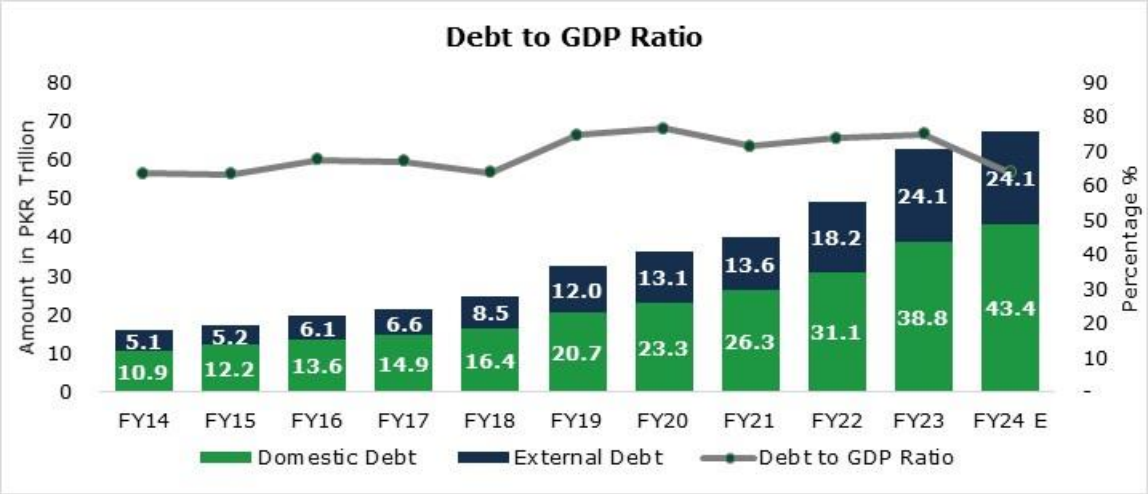
Remarkable evidence is that at the end of March 2024, the average open market exchange rate was PKR/USD 279.07, whereas the average interbank exchange rate was PKR/USD 277.95. This depicts a minimal difference of 0.4%, which is normal and a healthy sign of stability in the country's foreign currency supply and demand.

(Data Source: PES, 2023-24)

Public Debt

By March 2024, Pakistan's public debt reached PKR 67,525Bn, increasing by PKR 4,644Bn since June 2023. This rise is higher than the PKR 8,278Bn increase observed during the same period last year. PKR appreciation against US dollar by around 3% resulted into decrease in external public debt by around PKR 732Bn when reported in Pakistani rupees. In addition to above, government also received USD 1.9Bn under the IMF's Stand-By Arrangement (SBA) and USD 1.0Bn bilateral deposit from UAE for balance of payment support. External public debt repayments were recorded at USD 5,330Mn during the first nine months of FY 2024, of which, USD 2.8Bn were repayments against multilateral debt, USD 2.0Bn against bilateral debt, USD 0.6Bn against Naya Pakistan Certificates.

(Data Source: PES, 2023-2024)



(Data Source: PES, 2023-24)

The primary factors that contributed towards the rise in external public debt include federal primary surplus (PKR 1,180Bn), interest on debt (PKR 5,518Bn) and others, which includes Exchange Rate, Cash Balances and Accounting Impact (PKR 306Bn). The Debt-to-GDP ratio of Pakistan stood at 64% as at March 2024.

(Data Source: PES, 2023-24)

Domestic Debt

Domestic debt was recorded to the tune of PKR 43,432Bn at the end of March 2024, measuring an increase of PKR 4,662Bn during the first nine months of FY2024. At the end of March 2024, permanent debt, floating debt and unfunded debt accounted for 72% (PKR 31.2Tn), 20% (PKR 8.5Tn) and 6% (PKR 2.8Tn), of the domestic debt portfolio, respectively.

(Data Source: PES, 2023-24)

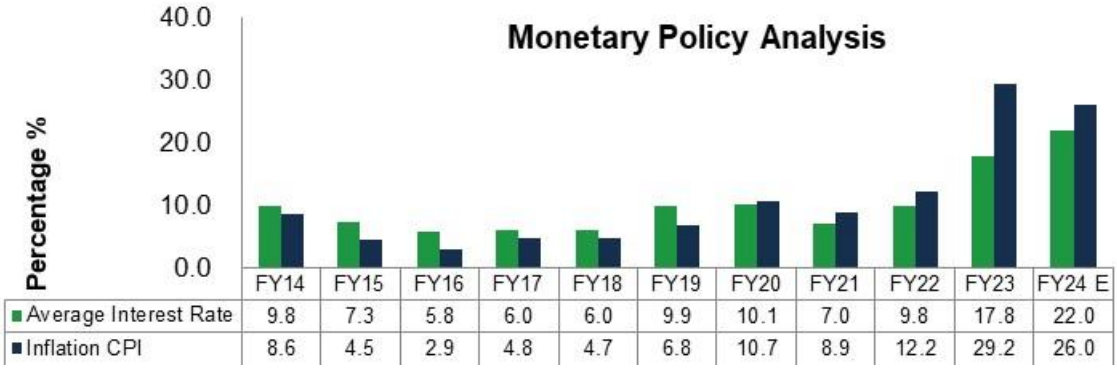
External Debt

By the end of March 2024, Pakistan's external public debt was PKR 24,093Bn or USD 85.2Bn, showing a decrease of approximately USD 2.6Bn during the first nine months of FY2024. The major portion of the Pakistan's external public debt i.e. 53%, is represented by Multilateral loans, followed by Bilateral loans, Commercial loans, Eurobonds / Sukuks, which accounts for 21%, 06%, and 09%, respectively.

The Government’s strategy to reduce its debt burden to a sustainable level includes commitment to run primary budget surpluses, maintain low and stable inflation, promote measures that support long-term sustainable economic growth and follow an exchange rate regime based on economic fundamentals. Additionally, the Government is also committed to ensure fiscal discipline through revenue mobilization and expenditure rationalization and maintain debt sustainability over the medium term. With a narrower fiscal deficit, public debt is projected to enter a firm downward path while the Government’s efforts to improve maturity structure and expansion of debt instruments-base would help to meet the financing requirements efficiently.

(Data Source: PES, 2023-24)

Monetary Policy



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24 E
Average Interest Rate	9.8	7.3	5.8	6.0	6.0	9.9	10.1	7.0	9.8	17.8	22.0
Inflation CPI	8.6	4.5	2.9	4.8	4.7	6.8	10.7	8.9	12.2	29.2	26.0

(Data Source: PES, 2023-24)

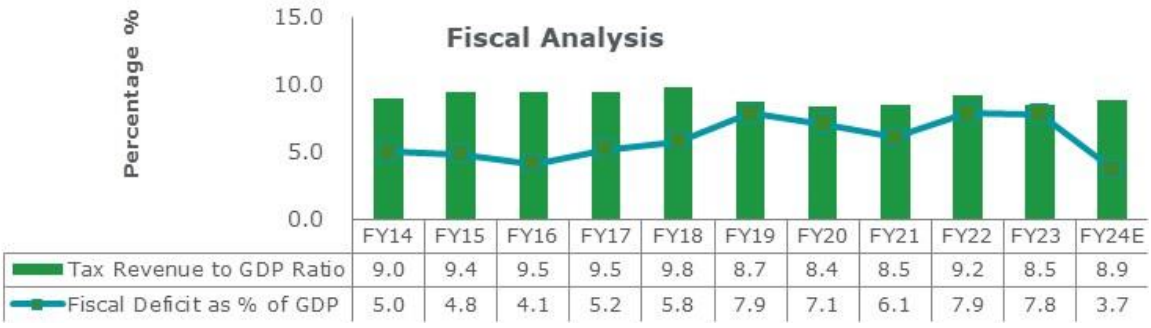
The State Bank of Pakistan (SBP) has maintained a tight monetary policy, keeping the policy rate at 22% from July to April of FY2024, aiming to control inflationary pressures.

At its meeting held early June 2024, the Monetary Policy Committee (MPC) decided to reduce the policy rate by 150 bps to 20.5%, effective from June 11, 2024. The MPC noted that while the significant decline in inflation since February was broadly in line with expectations, the May outturn was better than anticipated earlier. The Committee assessed that underlying inflationary pressures are also subsiding amidst tight monetary policy stance, supported by fiscal consolidation. This is reflected by continued moderation in core inflation and ease in inflation expectations of both consumers and businesses in the latest surveys. At the same time, the MPC viewed some upside risks to the near-term inflation outlook associated with the upcoming budgetary measures and uncertainty regarding future energy price adjustments.

During July-April FY2024, the Consumer Price Index (CPI) inflation recorded at 26.0% as against 28.2% during the same period last year. The decline in inflation is broad-based, reflecting fiscal consolidation, smooth supplies of food items, favorable global commodity prices, and the base effect. The Russia-Ukraine conflict in FY2023 triggered a global economic crisis, causing substantial disruptions in food and energy supply chains. Pakistan's depleted foreign exchange reserves led to currency depreciation, exacerbating inflation.

(Data Source: PES, 2023-24)

Fiscal Policy



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Tax Revenue to GDP Ratio	9.0	9.4	9.5	9.5	9.8	8.7	8.4	8.5	9.2	8.5	8.9
Fiscal Deficit as % of GDP	5.0	4.8	4.1	5.2	5.8	7.9	7.1	6.1	7.9	7.8	3.7

(Data Source: PES, 2023-24)

Tax Collections and Budget Deficit

From July to March of FY2024, the fiscal deficit widened by 26.8%. The fiscal deficit increased to 3.7% of GDP, as compared to 3.6% in the previous year. The primary balance improved, achieving a surplus of PKR 1,615.4Bn (1.5% of GDP), in contrast to a deficit of PKR 503.8Bn (0.6% of GDP) last year. The government fetched PKR 3,408.6Bn from domestic sources and PKR 493.8Bn from external sources to finance the deficit. The improvement was mainly due by non-markup expenses growing more gradually but much like the year before, greater markup payments made the revenue imbalance worse and accelerated the rise in current expenses.

(Data Source: PES, 2023-24)

	FY 23	FY 24 E (Jul-Mar)
Fiscal Deficit as % of GDP	7.8%	3.7%

Total Revenue

During July-March FY2024, the substantial rise in tax collection of 29.3% was the main driver of the 41% increase in overall revenue to PKR 9,780.4Bn. During the same time period, non-tax receipts increased by 90.7% to PKR 2,517.9Bn. It has driven by higher receipts from SBP profit, petroleum levy, markup (PSEs and others), and royalties on oil/gas, etc.

(Data Source: PES, 2023-24)

Total Expenditure

From July-March FY2024, total spending increased to PKR 13,682.8Bn from PKR 10,016.9Bn the previous year. It rose by 36.6% as opposed to 18.7% the previous year. FY 2024, down from 18.7% in the previous year. Current expenses increased by 33.4% of total expenses. The first nine months of FY24 saw a notable 54% increase in markup payments. 33.4% of the total was allocated to current expenses, while 14.2% more was spent on development.

The total funds spent on development from July to March of FY2024 was PKR 1,158.1Bn, up from PKR 1,014Bn the year before. The budgeting strategy resulted in keeping the increase in non-mark-up current spending to 20.4%.

(Data Source: PES, 2023-24)

FBR Tax Collection

In July-April FY2024, Net tax revenues collected by FBR measured to PKR 7,361.9Bn (provisional), indicating a noteworthy growth of 30%. It is anticipated that PKR 9,415Bn will be collected in taxes in FY2024.

Pakistan relies heavily on indirect taxes, which contribute 52% of total FBR tax collection, while direct taxes contribute only 48%. The FBR has increased tax collection in recent years by implementing progressive taxation tactics, with the emphasis on raising indirect tax revenue in particular.

(Data Source: PES, 2023-24)

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Key highlights of Budget FY25

- The government has set a GDP growth target of 3.6% for FY25 as compared to 2.4% in FY24.
- Government is expecting inflation for FY25 to be around 12%.
- The total development budget is at the highest level in history at PKR 1,500Bn.
- PKR 2,122Bn will be provided for defence needs and PKR 839Bn will be allocated for civil administration expenses.
- PKR 1,014Bn has been allocated for pension expenditure.
- PKR 253Bn has been budgeted in the development budget for the energy sector.
- More than PKR 89Bn are being proposed for the IT sector in the financial year 2024-25.
- An amount of PKR 1,363Bn has been allocated as a subsidy for electricity, gas and other sectors.
- The government has announced some relief measures for lower income strata which include (but are not limited to) increase in the allocation of BISP from PKR 466Bn to PKR 592Bn, subsidy allocation of PKR 65Bn for utility stores corporation, PKR 10Bn kept for Ramzan package.
- The government has made privatization a key priority. It will not only accelerate the ongoing privatization of institutions but also embark on a concrete program of offering other SOEs for private sector investment.
- It is proposed to allocate PKR 5Bn for Markup Subsidy and Risk Sharing Scheme for Farm Mechanization under PM’s Kisan Package.
- The salaries of government employees of grades 1 to16 have been increased by 25% while the salaries of officers from 17 to 22 grades are being increased by 22%.

Highlights of Important Fiscal Proposals

Income Tax

1. Tax slabs for non-salaried individuals and AOPs are decreased from 7 to 6, maintaining exemption for persons having annual taxable income upto Rs 600,000. The maximum tax rate for this category is increased from 35% to 45%.

2. Number of tax slabs for salaried individuals have been kept same, maintaining exemption for persons having annual taxable income upto Rs 600,000. However, tax rates from slab to 2 to 6 are enhanced resulting in an increase in annual tax liability from Rs 15,000 to Rs 270,000.

3. 25% Tax credit available to full-time teachers and researchers is withdrawn.

4. Tax rates on dividends received from mutual funds, earning 50% or more of their income from profit on debt, is increased from 15% to 25%.

5. Final Tax regime for exporters of goods is ended. Tax collected from proceeds of exported goods is to be treated as minimum tax. Banks will also collect 1% advance tax in addition to 1% minimum tax.

6. Increased rates for collection of advance tax on sale / purchase of immovable property introduced for filers, late filers and non-filers as under:

Proposed Rates for Seller of Property (Section 236C)				
S. No.	**Gross Amount of Consideration Received**	**Filers**	**Late filers**	**Non-filers**
1	Where the gross amount of consideration received does not exceed Rs. 50 million	3%	6%	10%
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	7%	
3	Where the gross amount of consideration received exceeds Rs. 100 million	4%	8%	

Proposed Rates for Buyer of Property (Section 236K)				
S. No.	**Fair Market Value of Immovable Property**	**Filers**	**Late filers**	**Non-filers**
1	Where the fair market value does not exceed Rs. 50 million	3%	6%	12%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	7%	16%
3	Where the fair market value exceeds Rs. 100 million	4%	8%	20%

7. Advance tax on profit on debt for persons not appearing on ATL is enhanced from 30% to 35%.

8. FBR empowered to apply restrictions, through general order, on foreign travel of citizen of Pakistan, not appearing on Active Taxpayers List, when they are required to file return of income. Restriction not to apply for NICOP holders, minors, students and such classes of persons as notified by FBR.

9. Advance tax on motor vehicles based on engine capacity is done away with. Advance tax from 0.5% to 12% of the value of vehicle is to be collected on purchase / transfer of motor vehicles, irrespective of engine capacity of the vehicle.

10. Withholding tax rates for toll manufacturing is enhanced from 5% to 9% (in case of company) and from 5.5% to 11% (for other than company) to streamline with withholding rates applicable for services.

11. Capital gain on sale of immoveable property acquired after July 1, 2024 is to be taxed at 15% for filers, whereas non-filers will be subject to tax at normal tax rates i.e. AOP and Individuals upto 45% (not below 15%) and companies at 29%.

12. For securities covered under section 37A, disposal of securities acquired on or after July 1, 2024, capital gain tax will be charged at 15% for persons appearing on ATL. Capital gain tax will be charged at normal tax rates for persons not appearing on ATL. The tax rate for individuals and AOPs not appearing on ATL, will not be lower than 15%.

13. Capital gain on securities covered under section 37A (including listed shares) are excluded from Tenth Schedule, thereby withdrawing the enhanced collection of tax in case of persons not appearing on ATL.

14. Scope of collection of advance tax by manufacturers on sales to distributors, dealers and wholesalers is extended to all sectors of economy, as compared to existing specified sectors. Rate of collection of tax will be 2% for persons not appearing in ATL as compared to 0.1% for filers.

15. Scope of collection of advance tax by manufacturer, distributor, dealer, wholesaler or commercial importer on sale to retailers is also extended to all retailers, as compared to retailers in specified sectors. Rate of collection of tax will be 2.5% for persons not appearing in ATL as compared to 0.5% for filers.

16. Rate of advance tax on telephone and internet bills is enhanced upto 75% of the bill amount for persons not appearing in ATL as compared to 15% for persons appearing in ATL.

17. 25% deduction on account advertisement expenses is to be disallowed from tax year 2024 and onwards for persons, who have claimed royalty expense, paid or payable to an associate, in tax year 2024 or any of two preceding tax years.

18. A person acquiring shares of a company is now required to collect advance tax from the seller at earlier of making payment or registration of shares with Securities & Exchange Commission of Pakistan or State Bank of Pakistan.

19. As an exception to the general rule and to encourage the privatization, Pakistan International Airlines Corporation Limited can carry forward business losses for tax year 2017 and onwards for a period of 10 years, as compared to existing carry forward limit of 6 years.

20. Coal mining projects in Sindh providing coal to power projects can claim 100% tax credit for income from such activities only.

21. Share of Income from Association of Persons (AOP), having turnover of Rs 300 million or above, will be exempt in the hands of members, subject to audit and filing of audited financial statements along with return.

22. Commissioner can now issue notice to any individual for filing of wealth statement showing foreign assets owned by such individual, spouse, children or dependents.

23. Commissioner can pass best judgment assessment for persons who have discontinued or expected to discontinue business operations and failed to file final return of income in response to notice issued by the Commissioner.

24. Date of transfer of cases pending before Commissioner (Appeals) to Appellate Tribunal, having assessment value of above Rs 20 million, extended from June 16, 2024 to September 16, 2024.

25. Previous timelines of 60 and 90 days for filing appeal before the Appellate Tribunal and reference before the High Court, respectively, will apply an Appellate orders received before the commencement of the Tax Laws (Amendment) Act, 2024.

26. Commissioner can reject lower own estimate for the purpose of advance tax under section 147, in absence of proper documentation.

27. In absence of turnover, advance tax is now to be computed at 1/4th of 120% of the turnover for the latest tax year for which return of income is filed, as compared to existing limit of 1/4th of 110% of the turnover.

28. Commissioner's powers to issue exemption certificates for following are withdrawn creating anomaly, which should be clarified by FBR:

    (i) under sections 153(4) i.e. for manufacturer of goods;
    (ii) under section 152(4A) i.e. for a Permanent Establishment of a non-resident involved in manufacturing and certain other payments to non-residents; and
    (iii) Under section 159 including NPOs subject to 100% tax credit and exempt entities including approved retirement funds.

    Commissioner is still empowered to issue lower rate / reduced rate certificates and we understand that 0% certificate will be covered under lower / reduced rate.

29. FBR can notify minimum value of goods for collection of advance income tax at import stage. The definition of value of goods for collection of advance income tax is extended to include minimum value as notified by FBR.

30. Rate for default surcharge is fixed at KIBOR + 3% as compared to existing 12%.

31. Failure to furnish complete particulars by a company or an association of persons is now considered offence punishable with fine or /and imprisonment for one year. Penalties for not submitting complete particulars are also prescribed.

32. Failure to apply for registration under "Tajir Dost (Special) procedure, 2024" by the deadline i.e. April 30, 2024, is treated an offence punishable on conviction with imprisonment for a term not exceeding 6 months or fine or both. Penalties for not getting registration are also prescribed.

33. Exemption from tax on subsidy provided by Federal Government is withdrawn.

34. Tax exemption for FATA / PATA regions is extended up to June 30, 2025.

35. Withholding tax rate on cigarette distributors is increased from 1% to 2.5%.

Sales Tax

1. Definition of "Associates" is aligned with the general definition of associate provided under sub-section (1) of section 85 of the Income Tax Ordinance, 2001.

2. Licensed integrator defines to include person licensed by the Board to provide electronic invoicing system for integration of registered person. Further, Board may prescribe conditions, restrictions and limitations for issuance of electronic invoices by registered person.

3. The scope of term "tax fraud" is broadened by including certain intentional acts or omission which would tantamount to tax fraud.

4. Chargeability of sales tax on supply of goods at the time of receiving advance payment by supplier.

5. Powers of the Board extended to fix the value of supply for items classified under Third Schedule to the Act.

6. Time limitation for passing appeal effect extended upto two years from the end of the financial year in which appellate order was communicated to the Commissioner.

7. Best judgment Assessment introduced in case of non-filing of sales tax returns or failure to furnish record.

8. Provisions for assessment of tax, recovery of tax and limitation of assessment are restructured.

9. Introduction of comprehensive framework for sales tax audit through substitution of current provisions.

10. Empowering the Officer Inland Revenue to conduct investigative with the approval of the Commissioner in case of suspected tax fraud.

11. Rate of default surcharge to be restored from fixed 12% rate to KIBOR plus 3%.

12. Withdrawal of right of appeal before Appellate Tribunal against blacklisting or suspension order. However, Chief Commissioner is empowered to modify the order of blacklisting after providing opportunity of being heard.

13. Inadmissibility of input tax claim on account of payment of Rs. 50,000 in aggregate against a sales tax invoice.

14. Chargeability of sales tax on DAP on retail price basis under Third Schedule.

15. Withdrawal of zero rating and exemptions on stationary items and such items are proposed to be taxed at the reduced rate of 10% under Eighth Schedule.

16. Withdrawal of zero rating on infant preparations, fat filled milk and local supplies of commodities, raw material, components, parts or plant and machinery to registered exporters under Export Facilitation Scheme, 2021. Such items are proposed to be taxed at standard rate of 18%.

17. Withdrawal of zero rating on supply of milk other than under a brand name. it is proposed to be exempt under Sixth Schedule.

18. Withdraw of exemption on edible vegetable or fruits imported from Afghanistan, certain medical items or diagnostic kits. Such items are proposed to be tax at standard rate of 18%.

19. Phasewise withdrawal of exemption on supply of goods, electricity and imports of plant, machinery or equipment for installation in tribal areas and of industrial inputs by the industries located in tribal areas. Such goods are proposed to be taxed at reduced rate under Eighth Schedule.

20. Withdrawal of exemption on imports or goods supplied locally to hospitals run by charitable hospitals or non-profit institutions, machinery or equipment listed under serial no. 32 of Fifth Schedule to the Customs Act. Such goods are now proposed to be charged to tax at standard rate of 18%.

21. Exemptions proposed on import of all goods received in the event of natural disaster or other catastrophe as gifts or relief consignments, supply of certain petroleum products and supply of iron and steel scrap.

22. Withdrawal of exemption on certain bakery items, certain kind of feed or seeds, tractors, oil cakes and other solid residues. Such items proposed to be taxed at reduced rate of 10% under Eighth Schedule.

23. Withdrawal of reduced rate on LPG, supplies from integrated retail outlet or certain locally manufactured hybrid vehicle and medicaments.

24. Increase in sales tax rate on supply of imported computers, laptops and notebooks.

25. Revision in sales tax rates on cell phones or satellite phones.

26. Increase in withholding sales tax rate in case of certain persons proposed in Eleventh Schedule.

27. Extension of cutoff date from June 16, 2024 to September 16, 2024 for transfer of appeals pending before Commissioner Appeals to Appellate Tribunal exceeding threshold of Rs. 10 million.

28. Time limitation for filing of appeal before the Commissioner Appeals and Appellate Tribunal prior to amendment vide the Tax Laws (Amendment) Act, 2024 continue to apply in respect of order received before the amendment.

29. Penalties enhanced in case of tax fraud, submission of false document, making false statement, counterfeited or without tax stamps, banderoles, sticker, label, barcodes and in case of failure to integrate business as required. Further, penalty proposed for licensed integrator who fails to integrate registered person as required under the Act.

Customs Duty

1. Alignment of ADRC provisions with an aim to provide mechanism for early disposal of pending cases as well as for effective management of new disputes through dispute resolution committees.

2. Establishment of Directorate General of, National Targeting Centre & Trade Based Money Laundering for better enforcement of law.

3. Intelligence Bureau to provide assistance to customs authorities whenever requested.

4. Extension of in field exemption notifications issued on or after the first day of July, 2016, up to June 30, 2025.

5. Introduction of penal provision to prevent illicit trafficking of 'Nuclear Material' and 'Radioactive Material'.

6. Severe penalties proposed in various cases including unauthorized removal of goods that are liable to be seized / confiscated under the Act.

7. Custom duty abolished on import of high speed diesel and LNG.

8. Custom duty on the aerosol products enhanced from 11% to 16%.

9. Zero percent custom duty proposed on imports of submersible pumps.

10. Corrective measures taken through deletion of certain PCT codes to avoid misuse of temporary imports.

11. Concessionary rates to be introduced to facilitate import of sea food processing related machinery & equipment.

12. Exemption from custom duty proposed to facilitate local manufacturing of solar panels, inverters and batteries.

13. Exemption on the import of element of live saving drugs used to respiratory disease.

14. Import of live stocks for research purpose to be exempted.

15. Concession of custom duties on import of fresh & dry fruits to be withdrawn.

16. Concession of custom duties on imported vehicles exceeding value of $50,000 to be withdrawn.

Federal Excise Duty

1. Rate of default surcharge to be restored from fixed 12% rate to KIBOR plus 3%.
2. Penalty introduced on commencement of production or removal of plant and machinery with value exceeding Rs.50 million related to dutiable goods without approval of Commissioner.
3. Extension in deadline for transfer of cases having value of more than 5 million from Commissioner (Appeals) to the Appellate Tribunal from June 16, 2024 to September 16, 2024.
4. Timeline to file appeal before Appellate Tribunal and reference before High Court shall remain same as prescribed earlier for the orders passed before commencement of Tax Laws (Amendment) Act, 2024.
5. FED to be levied on acetate tow, nicotine pouches, allotment or transfer of commercial or residential property and sugar.
6. Rate of duty amended for E-liquids, cement and Filter rod for cigarettes.
7. Enhancement of on pack printed retail price range of the locally produced cigarettes for the purpose of levy of FED.
8. Conditional exemption provided on imports made by diplomats, diplomatic missions, privileged persons and privileged organizations.
9. 5% FED chargeable on allotment or transfer of commercial property and first allotment or transfer of residential property.

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Income Tax Ordinance, 2001

1. Definitions Board [Section 2(8)]

Under the existing law, the term 'Board' means the Central Board of Revenue established under the Central Board of Revenue Act, 1924 (IV of 1924), and the Federal Board of Revenue (the Board) from the commencement of the Act, 2007 (the Act).

The Bill proposes to expand the definition of the Board to include a Member of the Board to whom powers of the Board have been delegated.

2. Capital Gains [Section 37]

Currently, a person acquiring shares of a company is required to deduct from the gross amount paid an advance adjustable tax at the rate of 10% of the fair market value of the shares and pay such tax collected to the Commissioner by way of credit to the Federal Government within 15 days of the payment for acquiring the shares.

The Bill proposes an amendment by virtue of which the person is now required to deduct advance tax on purchase of shares of a company at the time of payment made or at the time of registration of shares by the Securities and Exchange Commission of Pakistan or State bank of Pakistan, whichever is earlier.

This appears to cater for the situation, where payments for shares is delayed beyond registration of shares.

3. Carry forward of business losses [Section 57]

Under the existing law, where a person has sustained a business loss that could not be wholly set off against the person's income chargeable to tax under any other head of income except for salary, the amount of loss not set off is allowed to be carried forward to six tax years immediately succeeding the tax year for which the loss was first computed.

The Bill proposes an amendment by virtue of which loss sustained by Pakistan International Airlines Corporation Limited (PIACL), relating to tax year commencing on or after first day of January 2017 is allowed to be carried forward for a period of ten years instead of six years, as applicable for other taxpayers.

The proposed amendment appears to incentivize the investors in the process of privatization of PIACL.

4. Tax credit for certain persons [Section 65F]

Section 65F of the Ordinance provides tax credit equal to 100% of the tax payable under any provisions of the Ordinance including minimum, alternate corporate tax and final taxes for the period to persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects.

The Bill proposes to insert an explanation to clarify that the tax credit will be applicable only to the person's income derived from the operations of coal mining projects in Sindh supplying coal to the power generation projects and not to the other sources of income. Accordingly, any other income derived

by such persons including supply of coal to other than power projects will not be subject to 100% tax credit.

5. Principle of taxation of Association of Persons (AOP) [Section 92]

Under the existing law, an AOP is liable to be taxed separately from the members of AOP and where a member of an AOP receives an amount from the income of the AOP that has already been taxed, then such income is exempt in the hands of the members of the AOP.

The Bill proposes a new proviso under sub-section (1) which states that where an AOP has a turnover of Rs. 300 million or above during the tax year or any of the preceding tax years, then the exemption from tax in the hands of members of such AOP will be available subject to the AOP getting its financial statements for the said tax year audited by a firm of Chartered Accountants or a firm of Cost and Management Accountants and file the financial statements with the return of income of that tax year.

6. Special provisions relating to persons not appearing in Active Taxpayers' List [Section 100BA]

Under the existing law, section 100BA of the Ordinance provides that the collection or deduction of advance income tax, computation of income and tax payable thereon in respect of a person not appearing on the Active Taxpayers' List (ATL) shall be determined in accordance with the rules in the Tenth Schedule to the Ordinance.

The Bill proposes an amendment in sub-section (1) of section 100BA of the Ordinance through which the person who is appearing in ATL but has filed return of income after the due date specified under section 118 of the Ordinance or as extended under section 119 or 214A of the Ordinance will also be subject to increased tax rates specified under the Tenth Schedule to the Ordinance. The amendment intends to discourage the taxpayers filing their returns of income after the due date and will encourage filing of returns and payment of taxes by the due date.

7. Transactions between associates [Section 108]

Under section 108, in respect of any transaction between persons who are associates, the Commissioner is empowered to distribute, apportion or allocate income, deductions or tax credits between the persons as is necessary to reflect the income that the persons would have realized in an arm's length transaction.

In making any adjustment, the Commissioner may determine the source of income and the nature of any payment or loss as revenue, capital or otherwise.

The Bill now proposes to introduce new subsection in section 108, which provides that for the tax year 2024 and onwards, 25% of the total expenditure for the tax year in respect of sales promotion, advertisement and publicity shall be disallowed and allocated to the said associate, where any amount is claimed as deduction for the tax year or for any of the two preceding tax years on account of royalty paid or payable to an associate directly or indirectly in respect of use of any brand name, logo, patent, invention, design or model, secret formula or process, copyright, trademark, scientific or technical knowledge, franchise, license, intellectual property or other like property or right or contractual right.

The intent of the proposed amendment is to stop multinationals from getting a tax deduction when they unfairly funnel royalty payments to arms of their own company that pose a multinational tax

risk such as treaty shopping, funneling income into tax havens, holding patents in countries with patent box regimes.

This newly inserted provision limits multinational entity's ability to claim tax deductions for payments relating to intangibles and royalties that lead to insufficient tax paid.

It is worth noting that nothing in the proposed amendment deals with the interaction between this measure and the tax on payments which are royalties and subject to royalty withholding tax. It is conceivable that both measures will operate. In the case of a royalty paid to a non-treaty country, this might lead to an effective rate of 22.25%: 15% imposed on the recipient (and collected from the payer) and 7.25% (25% X 29%) imposed on the payer through the denied deduction.

Similar provisions have been enacted in other jurisdictions but with the intent to deny a deduction to an entity for a payment where following key conditions are met:

1. the payer is a significant global entity;
2. it is making the payment to an associate, whether directly or indirectly;
3. the payment is, "attributable to a right to exploit an intangible asset";
4. as a result of some arrangement, income from the exploitation of an intangible is derived by the recipient or another associate; and
5. that income is derived in a low corporate tax jurisdiction.

However, it seems that while drafting this proposed amendment they have failed to provide safeguard to the multinational entities where the royalty income is derived by the non-resident associate in a tax jurisdiction having higher corporate tax rate than Pakistan.

Further, applicability of this disallowance of advertisement expenses from tax year 2024, based on the royalty amounts claimed in tax year 2024 or any of the two preceding years is likely to be challenged before the Courts, considering retrospective applicability of this section.

8. Powers to enforce filing of returns [Section 114B]

Through the Finance Act, 2022 section 114B was inserted providing for following consequences for persons not appearing in Active Taxpayers' List (ATL) but are required to file their return of income:

(a) disabling of mobile phones or mobile phone SIMS;
(b) discontinuance of electricity connection; or
(c) discontinuance of gas connection.

The Bill now proposes to restrict the foreign travel from Pakistan of such citizens of Pakistan whose name are not appearing on ATL. Such restriction for traveling will not apply on the following persons:

- Persons holding a National Identity Card for Overseas Pakistanis (NICOP);
- Minors;
- students;
- Such other classes of persons as notified by FBR.

These proposed measures aim to enhance tax compliance and ensure that individuals fulfill their tax obligations by filing their income tax returns. The government is taking proactive steps to document the economy and encourage the filing of tax returns, which is a positive initiative towards achieving a more equitable and transparent tax system.

9. Wealth Statement [Section 116]

Under the existing section 116, the Commissioner can issue a notice to any person, being an individual to furnish wealth statement, providing details of assets owned by such person or

person's spouse, minor children or other dependents.

Section 116 also provides that a resident individual shall furnish a wealth statement at the time of filing of return of income.

Further, under section 116A, a resident individual having foreign income of not less than USD 10,000 or having foreign assets not less than USD 100,000 is required to furnish statement of foreign assets and liabilities.

The proposed amendment seeks to insert the reference of foreign assets, thus empowering the Commissioner to ask for the details of foreign assets owned by an individual or individual's spouse, minor children or other dependents.

This amendments seems to be of clarificatory nature as generally the tax payers do provide details of both domestic and foreign assets while filing their wealth statements.

10. Best judgement assessment [Section 121]

The Bill proposes to extend the scope of best judgement assessment by the Commissioner, whereby a person fails to file final return as required under section 117(3). Under section 117(3), Commissioner may serve a notice on the person who has discontinued the business or is likely to discontinue the business to furnish to the Commissioner within the time specified in the notice.

11. Revision by the Commissioner [Section 122A]

The Bill proposes to make an editorial change by omitting the phrase "other than the Commissioner (Appeals) if the value of the assessment or, as the case may be, refund of the tax does not exceed twenty million rupees", inserted in section 122A through the Tax Laws (Amendment Act), 2024.

This change aims to streamline the revision process of orders passed by Officers Inland Revenue, excluding the Commissioner (Appeals). The revision by the Commissioner is not linked with the appeal before the Commissioner Appeals, as wording inserted through Tax Laws (Amendment) Act, 2024 created an anomaly, which has now been removed.

12. Pecuniary Jurisdiction in Appeals [Section 126A]

The Bill proposes an editorial change by replacing the word "Act" with "Ordinance" as mentioned under sub-section (1) in said section.

The Bill further proposes to insert an explanation in section 126A of the Ordinance, clarifying that the "value of assessment of tax" means the net increase in tax liability of a person as a result of order and value of refund means net reduction in refund as a result of order.

Tax Laws (Amendment) Act, 2024, provided that all cases, having the value of assessment above Rs. 20 million, pending with the Commissioner (Appeals) will be treated to be transferred to Appellate Tribunal by June 16, 2024. The Bill proposes to extend the date of transfer from June 16, 2024 to September 16, 2024.

13. Appeal to the Commissioner (Appeals) [Section 127]

As a consequence of introducing the pecuniary limits through the Tax Laws (Amendment) Act, 2024, the Bill now proposes changes in section 127 of the Ordinance, as a result of which the assessment order where the value of assessment of tax does not exceed Rs. 20 million is appealable before the Commissioner (Appeals).

14. Appeal to the Appellate Tribunal [Section 131]

The Bill proposes to make consequential changes after the amendment introduced through the Tax Laws (Amendment) Act, 2024, by omitting the word Commissioner (Appeals) in sub section (1). As a result, the taxpayer and the officer of Inland Revenue, aggrieved by an order of the Commissioner (Appeals) cannot file appeal before the Appellate Tribunal and will have to file a reference before the High Court in accordance with section 133 of the Ordinance.

15. Advance tax paid by the taxpayer [Section 147]

As per existing provision of the Ordinance, if an Association of Person (AOP) or a Company fails to provide turnover, or if the turnover for the quarter is not known, they are required to consider turnover for the purpose of quarterly advance tax payment as one-fourth of 110% of the turnover of the latest tax year for which a return has been filed.

The Bill proposes to enhance the rate from 110% to 120% for the purpose of computation of advance tax under sub-section (4).

As per existing provision of the Ordinance, taxpayer who is required to make payment of advance tax as per formula prescribed in section 147 of the Ordinance, estimates at any time before the last installment is due, that the tax payable is likely to be less than the amount he is required to pay, then the taxpayer may furnish to the Commissioner an estimate of the amount of the tax payable along with reasons for any decline in estimated turnover, documentary evidence of estimated expenses or deductions, which may result in lower payment of advance tax and the computation of the estimated taxable income of the relevant tax year.

The Bill further proposes to insert new sub-section (6B), through which Commissioner would have power to reject the taxpayer's estimate if not satisfied with the documentary evidence provided or if the estimate of the amount of tax payable is not accompanied by details as specified in sub-section (6) and require the taxpayer to pay advance tax in accordance with formulae prescribed under sub-section (4).

16. Imports [Section 148]

The Bill propose to insert a new sub-section 6A, by virtue of which the Board may, by notification in the official Gazette, would determine the minimum value of goods for the purpose of collection of advance income tax on goods at the import stage.

As a consequence to the proposed amendment, the Bill further proposes to make amendment in the meaning of **"Value of goods"** as provided under sub-section (9) by adding minimum value of goods notified by FBR.

Below is the comparison of the existing and proposed meanings of "Value of Goods".

Existing	**Proposed**
Value of goods means--- (a) in case of goods chargeable to tax at retail price under the Third Schedule of the Sales Tax Act, 1990, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods; and] (b) in case of all other goods; the value of the goods as determined under the Customs	Value of goods means--- (a) in case of goods chargeable to tax at retail price under the Third Schedule of the Sales Tax Act, 1990, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods. (b) in case of goods other than those specified in clauses (a) and (c) the value of

Existing	Proposed
Act, 1969 (IV of 1969), as if the goods were subject to ad valorem duty increased by the custom-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods.; and	the goods as determined under the Customs Act, 1969 (IV of 1969), as if the goods were subject to ad valorem duty increased by the custom-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods; and (c) minimum value as notified by the Board under sub-section (6A) as if such goods were subject to ad valorem duty as increased by the custom-duty, federal excise duty and sales tax, payable in respect of the import of the goods."

17. Payments to non-residents [Section 152]

As per existing provision of the Ordinance, the Commissioner may, on application by the recipient of payment referred to in sub-section (1A) having permanent establishment in Pakistan, or by a recipient of payment referred to in sub-section (2A), as the case may be, and after making such inquiry as the Commissioner thinks fit, allow by order in writing, in cases where the tax deductible under sub- section (1) or sub-section (2A) is not minimum tax, any person to make the payment without deduction of tax or deduction of tax at a reduced rate.

The payments covered under section 152(1A) includes a payment in full or part (including a payment by way of advance) to a non-resident person on the execution of:

(a) a contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project; or

(b) any other contract for construction or services rendered relating thereto; or

(c) contract for advertisement services rendered by T.V. Satellite Channels.

The payment under section 152(2A) includes a payment in full or part including a payment by way of advance to a permanent establishment in Pakistan of a nonresident person—

(a) for the sale of goods except where the sale is made by the importer of the goods and tax under section 148 in respect of such goods has been paid and the goods are sold in the same condition as they were when imported]

(b) for the rendering of or providing services; and

(c) on the execution of a contract, other than a contract for the sale of goods or the rendering of or providing services, shall, at the time of making the payment, deduct tax from the gross amount payable (including sales tax, if any).

The Bill now proposes to restrict the scope of application to be filed before the Commissioner by deleting the reference to certificate for non-deduction of tax, consequent to which the Commissioner can only issue a certificate of lower or reduced tax rate in case tax deductible against such payment is not a minimum tax.

Consequent to proposed amendment, taxpayer would not be able to obtain certificate for non-deduction of tax on above payments.

Corresponding changes have also been proposed in section 159 of the Ordinance to omit the word exemption in clause (a), (b), (c) of sub-section (1) and in sub-section (1A) the word "exemption" replaced with the word "lower rate".

One may argue that the Commissioner can issue a certificate for deduction of tax at 0% as lower or reduced rate under the amended provisions of law, since the law does not provide any basis for issuance of lower or reduced rate certificates. FBR may later provide more clarity in this regard through its circular.

18. Payment for goods, services and contract [Section 153]

As per existing provision of the Ordinance, taxpayer who receive payments under section 153(1), where tax deductible is not minimum tax, can file an application before the Commissioner for the non-deduction of tax or deduction of tax at a reduced rate against such payments.

The Commissioner after making such inquiry he thinks fit, may allow a certificate for the non-deduction of tax or deduction of tax at a reduced rate in cases tax deductible against above referred transactions is not a minimum tax under said section.

The Bill now proposes to restrict the scope of application by deleting reference to certificate for non-deduction of tax, consequent to which the Commissioner can only issue a certificate of lower or reduced tax rate in case tax deductible against such payment is not a minimum tax. Consequent to proposed amendment, taxpayer would not be able to obtain certificate for non-deduction of tax on above payments.

Corresponding changes have also been proposed in section 159 of the Ordinance to omit the word exemption in clause (a), (b), (c) of sub-section (1) and in sub-section (1A) the word "exemption" replaced with the word "lower rate".

One may argue that the Commissioner can issue a certificate for deduction of tax at 0% as lower or reduced rate under the amended provisions of law, since the law does not provide any basis for issuance of lower or reduced rate certificates. FBR may later provide more clarity in this regard through its circular.

Not issuing non-deduction or 0% withholding tax certificate would create difficulties for the taxpayers, having sufficient tax refunds available for adjustments against their future tax liabilities. Such taxpayers may then not be able to get it adjusted, in the absence of non-deduction certificate, as the customers would keep deducting tax either at full rate or at the lower or reduced tax rate, as the case may be. Resultantly this would impact their cash flow position due to accumulation of refunds.

19. Export [Sections 154, 168 & 169]

The Bill proposes to abolish final tax regime and replace the same with minimum tax regime in case of export of goods. Consequent to proposed amendment, exporter of goods will be liable to pay tax on taxable income at the corporate tax rate i.e. 29%, if tax collected at the rate of 1% at the time of realization of export proceeds is less than tax liability computed at the corporate tax rate. Tax collected at the rate of 1% at the time of realization of exports shall be considered as a minimum tax liability for that tax year.

The option to opt out of final tax regime under sub-section (5) is also proposed to be omitted.

Accordingly, corresponding changes are also proposed by omitting the clause (e) in sub-section (3) of section 168 (Credit

for Tax Collected & Deducted) and the expression "sub- section (4) of section 154" in clause (b) of section 169 (Tax Collected or Deducted as a Final Tax).

As a result, exporters would be able to adjust advance tax collected at the rate of 1% at the time of realization of export proceeds with their corporate tax liability. Further, exporters would also be liable to pay quarterly advance tax under section 147 of the Ordinance. Moreover, under normal tax regime, exporters can also claim tax credit for any foreign taxes.

The Bill also proposes to insert new clause (2A) to Division IV of Part III of the Second Schedule, whereby advance tax shall be collected at the rate of 1% from the proceeds of export in addition to the tax collected at the rate of 1% under clause (1). Tax collected under clause (2A) shall be adjustable against normal tax liability to be computed on net income basis. In case, minimum tax liability at the rate of 1% is higher than normal tax liability, such would result in tax refund position of the exporter.

The intention of the legislature appears to document the export sector. It is pertinent to note that the export sector has been under final tax regime for decades offering tax on gross sale proceeds instead of net income. The export sector has failed to take benefit of such liberal tax regime and has been lagging behind when compared to neighboring countries.

As a consequence of proposed amendment, exporters will also be subject to tax audits, under normal tax regime.

20. Exemption or lower rate certificate [Section 159]

Under the existing provisions of law, where the Commissioner is satisfied that an amount to which Division II or III of this Part or Chapter XII applies is –

(a) exempt from tax under this Ordinance; or
(b) subject to tax at a rate lower than that specified in the First Schedule; or
(c) is subject to hundred percent tax credit under this Ordinance],

The Commissioner shall, upon application in writing by the person, in the prescribed form issue the person with an exemption or lower rate certificate:

Provided that in case of a company, the Commissioner shall issue exemption or lower rate certificate under this section within fifteen days of filing of application by the company:

Provided further that the Commissioner shall be deemed to have issued the exemption certificate upon the expiry of fifteen days from filing of application by the aforesaid company and the certificate shall be automatically processed and issued by Iris.

The Bill proposes to replace the word 'exemption' with 'lower rate' which implies that the Commissioner will only issue lower rate certificate under section 159, even for cases, where he is satisfied that:

- the income is exempt from tax, or
- subject to 100% tax credit.

The issuance of lower rate certificate will cause unnecessary tax deduction for such taxpayers including Non-Profit Organizations subject to 100% tax credit under section 100C or entities whose income is exempt under Second Schedule (including approved provident and gratuity Fund). FBR should, therefore, clarify this amendment or withdraw these proposals.

Alternatively, one may argue that a withholding certificate at 0% would be considered as a reduced rate certificate as proposed by the Bill.

21. Offence and Penalties [Section 182]

The Bill proposes to insert new offences along with related penalties as given in the "TABLE" below:

S.No.	Offences	Penalties	Section of the Ordinance to which offence has reference
1B	Where any person fails to furnish a return of income as required under sub-section (3) of section 117 within the time specified in the notice.	Such person shall pay a penalty equal to higher of (a) 0.1% of the tax payable in respect of that tax year for each day of default; or (b) Rs. 1,000 per day of default: Provided that minimum penalty shall be Rs.10,000 in case of an individual and Rs.50,000 in all other cases.	117(3)
3A	Where any person being a trader or a shopkeeper who is required to apply for registration under this Ordinance but fails to register or fails to pay advance tax as specified in a scheme of special procedure prescribed under section 99B.	The shop of such person shall be sealed for seven days for first default and for twenty one days for each subsequent default.	99B
10A	Any person who fails to comply with income tax general order issued by the Board within fifteen days of issue of such order.	Such person shall pay penalty of one hundred million rupees for first default and two hundred million for each subsequent default.	114B
12A	Where any person fails to pay tax at the time of making payment as consideration of shares or at the time of registration of shares by the Securities and Exchange Commission of Pakistan or the State Bank of Pakistan, whichever is earlier.	Such person shall pay a penalty equal to fifty percent of the amount of tax involved	37(6)

S.No.	Offences	Penalties	Section of the Ordinance to which offence has reference
35	Any company and an association of persons who – (a) Fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer; (b) Furnishes any annexure, statement or document specified in the return of income as blank or with incomplete or irrelevant particulars; or (c) Attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.	Such company, including a banking company and an association of persons shall pay a penalty of Rs.500,000 or 10% of the tax chargeable on the taxable income, whichever is higher.”	114(2)

22. Prosecution for non-compliance with certain statutory obligations [Section 191]

Under the existing law, section 191 provides for the prosecution of a person who fails to comply with the obligations provided under various sections of the Ordinance, including filing of Return of Income under section 114 and wealth statement under sub-section (1) of section 116, after issuance of notice by the Commissioner.

Through the proposed amendment, the Bill seeks to include the non-compliance of a notice served by the Commissioner under Section 117(3) as an offence punishable and subject to prosecution under section 191.

Section 117(3) provides that where a Commissioner has a reasonable ground to believe that a person has discontinued or likely to discontinue the business, the Commissioner may ask the said person to furnish the Return of Income within the time prescribed through a notice in writing.

As a consequence of the proposed amendments, such person may be prosecuted upon conviction with a fine or imprisonment for a term not exceeding one year, or both.

23. Prosecution for failure to furnish information in return of income [Section 191A]

The Bill proposes to insert new section 191A titled as Prosecution for Failure to

Furnish Information in Return of Income.

This newly introduced section proposes that any Company, including a banking Company and an association of persons, who commits following offences shall be punishable with a fine or imprisonment for a term not exceeding one year or both:

(a) Fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer;

(b) Furnishes blank or incomplete particulars or information as specified in the return of income; or

(c) Attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.

The aforesaid proposed amendment currently does not cover the prosecution of individuals on failure to furnish the required information.

24. Prosecution for non-registration [Section 191B]

The Bill proposes to introduce new section 191B, prosecution for non-registration by any person as specified under section 99B of the Ordinance.

Section 99B empowers the Board to prescribe special procedures for small traders and shopkeepers for scope and payment of tax, record keeping, filing of Return of Income and assessment in respect of such small traders and shopkeepers in the specified cities or territories.

Pursuant to provision 99D, the Board has introduced special procedures for levy of tax on small traders and shopkeepers known as the "Tajir Dost (Special) Procedure, 2024" vide SRO. 457(I)/2024 dated March 30, 2024 applicable w.e.f. April 01, 2024. These procedures provide a deadline to shopkeepers and small traders operating in a fixed place of business within the limits of certain cities to get registration under the said scheme, by April 30, 2024 which is already lapsed.

Through the proposed insertion of Section 191B, any person specified under Section 99D fails to apply for registration under "Tajir Dost (Special) procedure, 2024" by the deadline i.e. April 30, 2024, shall commit an offence punishable on conviction with imprisonment for a term not exceeding 6 months or fine or both.

This proposed enforcement measure may compel the shopkeepers and small trader to ensure compliance of the Tajir Dost Scheme as introduced by the legislature.

25. Default Surcharge [Section 205]

The default surcharge rate was KIBOR plus 3%, before it was amended to 12% through the Finance Act, 2015. The Bill proposes to again fix the default surcharge at KIBOR plus 3%.

This amendment is proposed to align the default surcharge rate with the interest rate currently prevailing in the country, which currently stands at 20.5%.

26. Disclosure of Information by a Public Servant [Section 216]

This section provides the list of statements, evidences and records that are considered as confidential and a public servant is barred from disclosing such information.

Whereas sub-section (3) provides a list of particulars person and authorities to whom such statements, evidences and

records are to be provided subject to the conditions as mentioned therein.

The Bill proposes to introduce clause (kc) to sub-section (3) of section 216 which allows for the disclosure of information by a public servant to NADRA to process and analyze such data for the purposes of broadening of tax base.

27. Advance tax on sales to distributors, dealers and wholesalers [Section 236G]

Under the existing law, every manufacturer or commercial importer of pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron, and steel products, fertilizers, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, is required to collect advance tax at the time of sale to the distributors, dealers, and wholesalers.

The Bill proposes to extend the collection of tax to all sectors of economy by deleting reference to above specified sectors.

The amendment aims to apply uniform tax collection mechanism across all sectors and would promote documentation of economy.

28. Advance tax on sales to retailers [Section 236H]

Under the existing law, every manufacturer, distributor, dealer, wholesaler or commercial importer of pharmaceuticals, poultry and animal feed, edible oil and ghee, auto parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron, and steel products, fertilizers, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, to collect advance tax at the time of sale to retailers.

The Bill proposes to extend the collection of tax to all sectors of economy by deleting reference to above specified sectors and expanding it to the entire supply chain, to document the traders.

29. Savings (Retrospective Effect on Appeals) [Section 239]

Section 239 of the Ordinance provides repeal and savings of certain provisions which includes the pending appeals and procedures for imposing of penalty etc. which was applicable as per the provisions of the Income Tax Ordinance, 1979.

The Bill proposes to insert new sub section (18) under Section 239 whereby the period of limitation for filing of appeal before the Appellate Tribunal and filing of Reference to High Court as that of provided under Section 131 (2)(d) and Section 133(1) of the Ordinance shall continue to apply for only those appeal decisions which are received prior to the amendments in the aforesaid timeline brought through the Tax Laws (Amendment) Act, 2024.

Previously, the time period for filing of appeal before the Tribunal under Section 131(2)(d) was 60 days and for filing of reference before the High Court under Section 133(1) was 90 days, prior to the amendments made through the Tax Laws (Amendment) Act, 2024.

The aforesaid time period was reduced to 30 days for both filing of appeal before the Tribunal and reference before the High Court, after the amendments made through Tax Laws (Amendment) Act, 2024.

As per the proposed amendment, the Federal Government intends to retain the previous timelines of 60 days for filing appeal before the Tribunal and 90 days before the High Court only in such

cases, where the decision of Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024.

Whereas, in such cases where the decision of Commissioner (Appeals) and the Appellate Tribunal is received after the date of promulgation of the Tax Laws (Amendment) Act, 2024, the newly enacted timeline of 30 days would apply.

The Tax Laws (Amendment) Act, 2024 was passed by the National Assembly on May 3, 2024 and the assent given by the President of Pakistan on May 6, 2024. Whereas, it was published in the official gazette on May 9, 2024. Hence, the date of its promulgation would remain controversial.

The First Schedule

Rates of Tax

Part I

Division I

Rates of Tax for Non- Salaried Individuals and Association of Persons [Clause I]

Tax slabs for non-salaried individuals and AOPs are decreased from 7 to 6, maintaining exemption for persons having taxable income up to Rs. 600,000 for the year. The maximum tax rate for this category is increased from 35% to 45%.

A comparison of existing and proposed tax rates is given below:

S. No	Existing		Proposed	
	Income Slabs	Rate of Tax	Income Slabs	Rate of Tax
1	Where taxable income does not exceed Rs. 600,000	0%	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	7.5% of the amount exceeding Rs. 600,000	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 15,000 plus 15% of the amount exceeding Rs. 800,000	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 plus 20% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 75,000 plus 20% of the amount exceeding Rs. 1,200,000	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5	Where taxable income exceeds Rs.2,400,000 but does not exceed Rs. 3,000,000	Rs. 315,000 plus 25% of the amount exceeding Rs. 2,400,000	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs.3,000,000 but does not exceed Rs. 4,000,000	Rs. 465,000 plus 30% of the amount exceeding Rs. 3,000,000	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000
7	Where taxable income exceeds Rs. 4,000,000	Rs. 765,000 plus 35% of the amount exceeding Rs. 4,000,000		

Below is the comparison of tax liability between different amounts of taxable income taxed currently and as per the proposed amendments for non-salaried individuals and AOPs:

S. No.	Annual Taxable Income (Rs)	Annual Tax Liability (Rs)		
		Existing	Proposed	Increase / (Decrease)
1	600,000	-	-	-
2	1,100,000	60,000	75,000	15,000
3	1,600,000	155,000	170,000	15,000
4	2,100,000	255,000	320,000	65,000
5	2,600,000	365,000	470,000	105,000
6	3,100,000	495,000	620,000	125,000
7	3,600,000	645,000	810,000	165,000
8	4,100,000	800,000	1,010,000	210,000
9	4,600,000	975,000	1,210,000	235,000
10	5,100,000	1,150,000	1,410,000	260,000
11	5,600,000	1,325,000	1,610,000	285,000
12	6,100,000	1,500,000	1,835,000	335,000
13	6,600,000	1,675,000	2,060,000	385,000

Rates of Tax for Salaried Individuals
[Clause II]

A comparison of existing and proposed tax rates for salaried individuals is given below:

S. No	Existing		Proposed	
	Income Slabs	Rate of Tax	Income Slabs	Rate of Tax
1	Where taxable income does not exceed Rs. 600,000	0%	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 plus 12.5% of the amount exceeding Rs. 1,200,000	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 plus 15% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 plus 22.5% of the amount exceeding Rs. 2,400,000	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,600,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs.3,600,000 but does not exceed Rs. 6,000,000	Rs. 435,000 plus 27.5% of the amount exceeding Rs. 3,600,000	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000

S. No	Existing		Proposed	
	Income Slabs	Rate of Tax	Income Slabs	Rate of Tax
6	Where taxable income exceeds Rs. 6,000,000	Rs. 1,095,000 plus 35% of the amount exceeding Rs. 6,000,000	Where taxable income exceeds Rs 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

Below is the comparison of between different amounts of salaries taxed at current tax rates and potential tax liability as per the proposed rates:

S. No.	Annual Taxable Income (Rs)	Annual Tax Liability (Rs)		
		Existing	Proposed	Increase / (Decrease)
1	600,000	-	-	-
2	1,200,000	15,000	30,000	15,000
3	1,800,000	90,000	120,000	30,000
4	2,500,000	187,500	255,000	67,500
5	3,500,000	412,500	520,000	107,500
6	4,000,000	545,000	670,000	125,000
7	4,500,000	682,500	840,000	157,500
8	5,000,000	820,000	1,015,000	195,000
9	5,500,000	957,500	1,190,000	232,500
10	6,000,000	1,095,000	1,365,000	270,000

It is obvious from the above tables, that the proposed jump in tax rates from 35% to 45% would have a significant impact on the take home income of business individuals. Similarly, tax rates for salaried individuals have also been raised (2.5% for each slab).

It seems that once again the Government is looking for easier way to generate taxes ignoring the ground realities. It is a known fact that salaried individuals have been making a significant contribution in the tax revenues of the Government without much noise.

Moreover, from a fairness perspective, one can argue that individuals with similar levels of income should be subject to similar tax rates regardless of the source of that income. This principle suggests that both salary earners and business owners should contribute proportionally to government revenues.

Higher tax rates on business income might discourage entrepreneurship and investment, while lower rates could encourage business growth and innovation. On the other hand, taxing business income at a different rate than salary income may create disparities and distortions in the economy. Business income often involves a higher level of risk compared to salary income.

Or maybe the intent of the Government, besides meeting its very challenging revenue collection target, is to encourage the business individuals to become part of documented corporate sector. However, it needs to be understood that some of the association of persons like professional accounting firms are barred by their byelaws to become a corporate entity. The legislature must consider this limitation of such businesses and then devise the tax strategy accordingly.

Policymakers must consider these various factors in designing tax systems that are equitable, efficient, and conducive to economic growth.

Capital Gain on Disposal of Securities
[Division VII]

The Bill proposes that for disposal of securities acquired on or after July 1, 2024, capital gain tax will be charged at 15% for persons appearing on ATL, whereas, capital gain tax will be charged at normal tax rates for persons not appearing on ATL. The tax rate for persons not appearing on ATL, will not be lower than 15%.

The comparison of existing and new table is reproduced below:

S. No.	Existing Tax Rates		Proposed Tax Rates		
	Period	**Rate for Tax Year 2023 and onwards**	**Period**	**Rate of Tax on disposal of securities acquired between July 01, 2022 and June 30, 2024 (both dates inclusive)**	**Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024**
1	Where the holding period does not exceed one year	15%	Where the holding period does not exceed one year	15%	15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities and at the rate specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of securities.
2	Where the holding period exceeds one year but does not exceed two years	12.5%	Where the holding period exceeds one year but does not exceed two years	12.5%	
3	Where the holding period exceeds two years but does not exceed three years	10%	Where the holding period exceeds two years but does not exceed three years	10%	
4	Where the holding period exceeds three years but does not exceed four years	7.5%	Where the holding period exceeds three years but does not exceed four years	7.5%	
5	Where the holding period exceeds four years but does not exceed five years	5%	Where the holding period exceeds four years but does not exceed five years	5%	

S. No.	Existing Tax Rates		Proposed Tax Rates		
	Period	**Rate for Tax Year 2023 and onwards**	**Period**	**Rate of Tax on disposal of securities acquired between July 01, 2022 and June 30, 2024 (both dates inclusive)**	**Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024**
6	Where the holding period exceeds five years but does not exceed six years	2.5%	Where the holding period exceeds five years but does not exceed six years	2.5%	Provided that the rate of tax for individuals and association of persons not appearing on the Active Taxpayers' List, the rate of tax shall not be less than 15% in any case.
7	Where the holding period exceeds six years	0%	Where the holding period exceeds six years	0%	
8	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	

Provided that for securities except at S. No. 8 of the Table–

(i) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022; and

(ii) the rate of 0% tax shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July, 2013:

Provided further that the rate for companies in respect of debt securities shall be as specified in Division II of Part I of the First Schedule:

Provided also that a mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax at the rates as specified below, on redemption of securities as prescribed, namely:

S.No	Category	Existing Rate	Proposed Rate
1	Individual and AoP	10% of stock Fund 10% of Other Fund	15% for Stock Fund 15% for Other Fund
2	Company	10% of stock Fund 25% of Other Fund	15% of stock Fund 25% of Other Fund

Provided also that in case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 20%.

Provided also that no capital gain shall be deducted, if the holding period of the security acquired on or before 30th day of June 2024 is more than six years.

Explanation. – For the removal of doubt, it is clarified that provisions of this proviso shall be applicable only in case of mutual fund or collective investment scheme or a REIT scheme.

Tax on Capital Gains on disposal of Immovable Property
[Division VIII]

As per existing provision of the Ordinance, capital gain derived from the disposal of open plot, constructed property and flats is taxable at the tax rates as under.

S.no		Rate of Tax		
		Open plots	**Constructed property**	**Flats**
1	Where the holding period does not exceed one year	15%	15%	15%
2	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0%
4	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5	Where the holding period exceeds four years but does not exceed five years	5%	0%	-
6	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7	Where the holding period exceeds six years	0%	-	-

The Bill proposes to tax property acquired before July 01, 2024, at per existing tax rates. However, the Bill proposes to tax the capital gain in respect of immovable property, which is acquired on & after July 01, 2024, at a flat rate of 15% subject to the condition that the person is appearing in ATL at the time of disposal of the immovable property.

Whereas person not appearing on the ATL will be liable to tax at the rates specified under Division-I for Individuals and AOP, and Division II for Companies, provided that tax rate for Individuals and AOP not appearing in the ATL on the date of disposal shall not be less than 15%, on the amount of capital gain derived from such immovable property.

The proposed change is tabulated as below:

S.no		Rate of Tax on Properties acquired on or before June 30, 2024			Rate of Tax on properties acquired on or after 1st day of July, 2024
		Open plots	Constructed property	Flats	
1	Where the holding period does not exceed one year	15%	15%	15%	15% for persons appearing on the ATL on date of disposal of property and at the rates specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the ATL on the date of disposal of property. Provided that the rate of tax for individuals and association of persons not appearing on the ATL on the date of disposal, the rate of tax shall not be less than 15% of the gain.
2	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%	
3	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	-	
4	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-	
5	Where the holding period exceeds four years but does not exceed five years	5%	-	-	
6	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-	
7	Where the holding period exceeds six years	-	-	-	

Part III

Advance Tax on Dividend
[Division I]

The Bill Proposes to substitute (b) in Division I as follows:

Existing	Proposed
15% in mutual funds, Real Estate Investment Trusts and cases other than those mentioned in clauses (a), (c) and (d);	(b) 15% in the case of mutual funds, Real Estate Investment Trusts and cases other than those mentioned in clauses (a), (c) and (d): Provided that the rate of tax on dividend received from mutual funds deriving fifty percent or more income from profit on debt shall be 25%.

Consequent to the proposed amendment, the tax rates on dividends received from mutual funds earning 50% or more of their income from profit on debt including money market and income funds will increase from 15% to 25%.

Payments for Goods and Services
[Division III]

The Bill proposes to substitute the sub-clauses (i) and (ii) of clause (b) as follows:

Existing rates	Proposed rates
(b) In the case of sale of goods including toll manufacturing: (i) in case of a company, 5% of the gross amount payable, and (ii) in any other case, 5.5% of the gross amount payable.	(b) In the case of sale of goods including toll manufacturing: (i) in case of a company, 9% of the gross amount payable for toll manufacturing and 5% of the gross amount payable in case other than toll manufacturing; and (ii) in case other than a company, 11% of the gross amount payable for toll manufacturing and 5.5% of the gross amount payable in other than toll manufacturing.

Consequent to the proposed amendment, the withholding tax rates on payments for toll manufacturing will be streamlined with the tax rates prescribed for services.

Exports
[Division IV]

The Bill proposes to insert new clause (2A) to Division IV, whereby advance tax rate shall be collected at the rate of 1% of the proceeds of export in addition to the tax deducted at the rate of 1%, which is proposed to be treated as minimum tax.

As a result, exporters of goods will be liable to pay tax at the rate of 2% (1% minimum tax+ 1% advance tax) at the time of realization of export proceeds from the sales of goods.

Tax collected at the rate of 1% as advance tax shall be adjustable against normal tax liability for that tax year.

Part IV

Telephone Users
[Division V]

The Bill proposes to add new proviso in clause (b) of Division V and below is the comparison of the existing and proposed provision:

Existing rates		Proposed rates	
(b) In the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card	15% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.	(b) In the case of subscriber of internet, mobile telephone and pre-paid internet or telephone card	15% of the amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form. Provided that in the case of persons mentioned in income tax general order issued under section 114B, the rate of collection of tax shall be 75% of the amount of bill or sale price of internet pre-paid card or prepaid telephone card or sale of units to any electronic medium or whatever form

Advance tax on private motor vehicles
[Division VII]

Section 231B provides framework for collection of advance tax at the time of registration, transfer and sale of private motor vehicles. As per existing rates, advance tax at the time of motor vehicle registration is collected at the fixed rate in respect of those motor vehicles whose engine capacity is upto 2,000 cc. For motor vehicles, having engine capacity more than 2000 cc, advance tax is collected on the value of the motor vehicle.

The Bill proposes collection of advance tax in respect of motor vehicle based on value regardless of engine capacity.

Below is the comparison of existing and proposed advance tax.

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

Part-IV

Advance tax on sale or transfer of Immoveable property
[Division X]

The Bill proposes to enhance the collection advance tax on sale or transfer of immoveable property based on the gross amount of consideration received and below is the comparison of the existing and proposed provision:

S.No	Amount	Existing Rate	Proposed Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million.	3%	3%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million		3.5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million		4%

Advance tax on purchase of Immoveable property
[Division XVIII]

The Bill proposes to increase the collection advance tax on purchase of immoveable property based on the fair market value and below is the comparison of the existing and proposed provision:

S.No	Amount	Existing Rate	Proposed Rate
1	Where the fair market value received does not exceed Rs. 50 million.	3%	3%
2	Where the fair market value received exceeds Rs. 50 million but does not exceed Rs. 100 million		3.5%
3	Where the fair market value received exceeds Rs. 100 million		4%

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The Second Schedule

Part-I

Exemptions and Tax Concessions

Withdrawal of Exemption of Income from Subsidy
[Clause (102A)]

It is common practice that Government has to allow subsidies to their agencies/departments to meet the cost differentials in order to carry out their plans/projects. This is often necessitated to provide relief to various segments of the society at large. Under the existing scheme of things, such subsidies are exempt from income tax under Clause (102A).

The Bill proposes that subsidies granted by the Federal Government for the purposes of implementation of any approved assignment shall be taxed, by proposing to omit Clause (102A).

Extension in exemption for residents of Tribal Areas
[Clause (145A)]

The Bill proposes to extend time limit for the exemption on any income, which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018, of any individual domiciled or Company and Association of Persons resident in the Tribal Area forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018.

Presently, this exemption is upto June 30, 2024, which is proposed to be extended upto June 30, 2025.

Part II

Reduction in Tax Rates

Reduction in income tax payable by cigarette distributors
[Clause 24A]

As per existing law, the rate of tax under clause (a) of sub-section (1) of section 153 in the case of distributors of cigarettes and pharmaceutical products as recipient of payment is 1% of gross amount of payments. The Bill proposes to increase the rate of income tax withholding from cigarette distributors from 1% to 2.5% of the gross amount of payment.

However, by virtue of the proposed amendment the withholding tax rate for distributors of pharmaceutical products is proposed to be kept unchanged at 1%.

Part III

Reduction in Tax Liability

Withdrawal of tax credit to full-time Teachers and Researchers
[Clause 2]

This clause As per existing provision of law, the tax payable by a full-time teacher or researcher employed in a non-profit educational institution (including Government research institutions) recognized by HEC is to be reduced by 25% of tax payable on their income from salary. The Bill proposes to omit the said Clause, thereby withdrawing the tax reduction.

The proposed omission may spark a debate regarding the Government's priorities in respect of education and research sectors. The Government should consider alternative measures to support these sectors, such as targeted grants or incentives for institutions to invest in faculty development and research infrastructure.

Part IV

Exemption from Specific Provisions

Extension of exemption to former FATA and PATA region
[Clause 109A & 110]

The Ordinance provides exemptions from withholding tax on payments which are covered under the Division III, Part V of Chapter X, on payment to those persons whose income was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Baluchistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018 to the 30th day of June, 2023 (both days inclusive).

Such exemption from withholding tax on payments was extended for one year till June 30, 2024 vide Finance Act 2023. The Bill now proposes to further extend the exemption period till June 30, 2025.

The Seventh Schedule

Rules for the Computation of the Profits and Gains of a Banking Company and Tax Payable thereon.

The Seventh Schedule to the Ordinance pertains to the rules and provisions related to the taxation of Banking Companies. It outlines the specific guidelines for the assessment and computation of taxable income for Banking Companies, taking into account various special considerations applicable to the Banking Sector.

[Rule 1(d)]

At present, the Rule 1 of the Seventh Schedule to the Ordinance states that the income, profits and gains of Banking Companies shall be taken to be the balance of the income from all sources before tax, as disclosed in the annual accounts required to be furnished to the State Bank of Pakistan, after making adjustments required under the Rule, and subject to the provisions of Chapters VII and VIII of the Ordinance.

The Clause (d) of Rule 1 states that the amount of "bad debts" classified as sub-standard or doubtful under the Prudential Regulations issued by the State Bank of Pakistan shall not be allowed as expense, for the purpose of calculation of taxable income as per the Rule.

The Bill proposes that the Clause (d) shall be substituted, and after the proposed substitution the Banking Companies shall not be allowed to claim expense pertaining to bad debts classified as "sub-standard" or "doubtful" under the Prudential Regulations of the State Bank of Pakistan, as well as provisions for advances, off-balance sheet items, or any other financial assets classified in stages I, II, or III (performing, under-performing, or non-performing) under any relevant accounting standard, including IFRS 09.

However, the Bill provides that only bad debts classified as "loss" related to non-performing assets under the State Bank's Prudential Regulations will be allowable as expense.

The above amendment is of clarificatory nature, and it does not change the treatment of "bad debts" classified as substandard or doubtful, which will continue to be disallowed.

[Rule 1(da)]

The Bill further proposes that a new Clause (da) shall be inserted in the Rule 1, which will restrict the Banking Companies from claiming as a deduction or an expense, the provisions or expected credit losses for advances and off balance sheet items or any other financial asset, existing before or after the 1st day of January, 2024 under IFRS 9.

[Rule 1(g)]

The Clause (g) of Rule 1 of the Seventh Schedule to the Ordinance currently states that the adjustments made in the annual accounts pertaining to the application of international accounting standards 39 and 40 shall be excluded while arriving at taxable income. The Bill proposes to enhance the scope of this restriction.

It is proposed that the Banking Companies shall not be allowed to make any adjustments relating to any applicable accounting standard, policy, any guidelines or instructions of State Bank of Pakistan, to the annual accounts while arriving at their taxable income.

[Rule 7CA]

The current Rule 7CA of the Seventh Schedule to the Ordinance states that the section 4C of the ITO 2001 (Super Tax on High Earning Persons) shall apply to Banking Companies dealt under the Seventh Schedule, from the Tax Year 2023 onwards.

The Bill proposes to introduce an explanation to the Rule, wherein it is clarified that the expression "2023 onwards" means that the provisions of the section 4C are applicable for the Tax Year 2023 and for all the succeeding Tax Years.

The Tenth Schedule

The Tenth Schedule to the Ordinance outlines the taxation rules for persons not appearing in the Active Taxpayers' List (ATL). These provisions enforce higher withholding tax rates and stricter measures to encourage tax registration and compliance.

Rate of deduction or collection of tax
[Rule 1]

Currently, Rule 1 of the Tenth Schedule provides that if tax is required to be deducted or collected under any provision of the Ordinance from persons not appearing in the ATL, the rate of tax required to be deducted or collected shall be increased by one hundred percent (100%) of the rate specified in the First Schedule to the Ordinance. The Bill proposes to omit the expression "the First Schedule to" from Rule 1.

Through the proposed omission, the Bill aims to broaden the ambit of Rule 1 and the rates given in First Schedule or any other part of the Ordinance shall be increased by 100% in case of deduction or collection of tax from the persons not appearing in ATL.

Furthermore, the Bill proposes to increase rates of collection of advance tax under section 236K of the Ordinance given in second proviso to Rule 1 for persons not appearing in ATL, by introducing slab rates for collection of tax under section 236K, based on the fair market value of immovable property. As per the proposed amendments, collection of advance tax shall be increased as follows:

S. No.	Fair Market Value of Immovable property	Existing rate for non-filers	Proposed rate for non-filers
1	Where the fair market value does not exceed Rs. 50 million	10.5%	12%
2	Where the fair market value exceeds Rs. 50 million but does not exceeds Rs. 100 million		16%
3	Where the fair market value exceeds Rs. 100 million		20%

In addition to the above, the Bill proposes to insert a third proviso to Rule 1 of Tenth Schedule. Through the proposed proviso, the Bill intends to increase the rates for deduction or collection of tax in case of non-filers against certain payments as under:

S. No.	Section	Transaction	Proposed Rate for non-filers
1	151	On yield or profit on debt	35%
2	236C	On the gross amount of consideration received on sale or transfer of immovable property.	10%
3	236G	On the gross amount of sale to distributors, dealers, or wholesalers other than sale of fertilizer	2%
4	236H	On the gross amount of sale to Retailers	2.50%

Introduction of rates for tax deduction or collection from late-filers [Rule 1A]

The Bill proposes to insert a new Rule 1A for rates of deduction or collection under section 236C (Advance Tax on sale or transfer of immovable property) and 236K (Advance tax on purchase or transfer of immovable property) from persons who are appearing in the ATL but have not filed return by the due date as specified in the Ordinance.

The proposed rates of tax to be collected under section 236C are as follows:

S. No.	Gross Amount of Consideration Received	Tax Rate
1	Where the gross amount of consideration received does not exceed Rs. 50 million	6%
2	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
3	Where the gross amount of consideration received exceeds Rs. 100 million	8%

The proposed rates of tax to be collected under section 236K are as follows:

S. No.	Fair Market Value of Immovable Property	Tax Rate
1	Where the fair market value does not exceed Rs. 50 million	6%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
3	Where the fair market value exceeds Rs. 100 million	8%

Exclusions from the provisions of the Tenth Schedule to the Ordinance [Rule 10]

The Bill proposes to exclude tax collected or deducted under section 37A - Capital gain on sale of securities, from the applicability of the Tenth Schedule.

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Sales Tax Act, 1990

1. Definitions

i. Associates (associated person) [Clause (3) Section 2]

The Bill proposes to broaden the scope of term "Associates" by aligning the definition to the extent as defined under sub-section (1) of section 85 of the Income Tax Ordinance, 2001.

Consequently, the proposed amendment would also include following persons in the category of associate for the purpose of sales tax:

a. a person who sufficiently influences the other person either alone or together with an associate or associates; or

b. a person who directly or indirectly enters into a transaction with the other person who is a resident jurisdiction of zero taxation regime.

The term "sufficiently influence" has already been explained under sub-section (1) of section 85 of the Ordinance whereby two persons shall be treated as sufficiently influencing each other where one or both persons, either directly or indirectly, are economically and financially dependent on each other and, decisions are made in accordance with directions, instructions or wishes of each other for common economic goal.

ii. Licensed Integrator [Clause (15A) Section 2]

The Bill proposes to define the term licensed integrator means any person licensed by the Board to provide electronic invoicing system for integration of registered person in the prescribed manner.

iii. Tax Fraud [Clause (37) Section 2]

The Bill proposes to broaden the scope of the term 'tax fraud' by substituting the existing definition with the following:

"tax fraud" means 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-

(a) suppression of sales or receipts that are chargeable to tax under this Act;
(b) false claim of input tax credit;
(c) making taxable supplies of goods without issuing any tax invoice, in violation of the provisions of this Act or the rules made thereunder;
(d) issuance of any tax invoice without supply of goods leading to inadmissible claim of input tax credit or refund;
(e) evasion of tax by availing undue input tax credit or obtaining inadmissible refund by any means or methods other than that covered under clauses (a) to (d);
(f) collection of any amount as tax but failing to deposit the same in the prescribed manner beyond a period of three months from due date of payment of tax;
(g) 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;
(h) tampering with or destroying of any material evidence or documents required to be maintained under this Act or the rules made thereunder through human or digital means; or
(i) 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 made thereunder.

The term "intentional" as used in the aforesaid clause has been explained as any act or omission as aforesaid 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.

iv. Time of Supply [Clause (44) Section 2]

Time of supply for the purpose of charging sales tax on supply of goods, other than goods supplied under Hire Purchase Agreement, is currently the time when the goods are delivered or made available to the recipient of supply.

The Bill proposes to charge sales tax at the time of advance payment received by the supplier in respect of supply of goods by treating the time of supply as earlier of the events when the goods are delivered/made available or when payment is received.

The chargeability of sales tax on advance payment was previously introduced through the Finance Act, 2013 which was later omitted through the Finance Act, 2021.

v. Value of Supply [Clause (46) Section 2]

The Bill proposes to provide powers to the Board to also fix the value of any imported goods specified under Third Schedule to the Act which are chargeable to sales tax on retail price basis.

2. Scope of Tax [Section 3]

Currently, the Board is empowered under sub-section (11) of section 3 of the Act to require class of person to integrate their invoice issuing machines with the Board's Computerized System for real time reporting of sales in such mode and manner and from such date as may be prescribed. The Bill proposes to omit this subsection and transpose such empowering provision through corresponding insertion of subsection (4) of section 40C to the Act.

3. Limitation of issuing orders in certain cases [Section 11B]

Presently, appeal effect order is required to be passed within one year of the end of financial year in which order of the Commissioner Appeals, Appellate Tribunal, High Court or Supreme Court was served to the Commissioner or Officer Inland Revenue. The Bill proposes to align the appeal effect provisions with section 124 of the Income Tax Ordnance, 2001 which provides for limitation of two years from end of financial year in which appellate order was communicated to the Commissioner.

However, time limitation for appeal effect proceedings where new assessment order is required to be passed by the Commissioner or Commissioner Appeals in respect of order of the Appellate Tribunal, High Court or Supreme Court, remains unchanged as within one year from the end of financial year in which appellate order is communicated to the Commissioner or Commissioner Appeals.

4. Best judgment Assessment [Section 11D]

The Bill proposes to introduce new provision empowering the Officer Inland Revenue not below the rank of Assistant Commissioner to make best judgment assessment on the basis of available information where a person:

(a) fails to furnish a sales tax return in response to notice under section (2A) of section 26 of the Act, or;
(b) fails to produce required accounts, documents, record or evidence.

In case of (b) above, the claim of input tax shall also be disallowed where a person fails to provide invoice or other record of transaction giving rise to such claim.

Best judgment assessment will be made after issuing show-cause notice based on available information making assessment of tax payable or refund due along with default surcharge and penalty. However, where best judgment relates to non-filing of a sales tax return and such person files return with tax payable along with default surcharge and penalty, the show cause notice and the assessment order shall abate.

The Officer Inland Revenue shall determine minimum tax liability of the registered person in accordance with the conditions specified by the Board where the person is required to file return but failed to file return.

5. Assessment of Tax and Recovery of tax not levied or short levied or erroneously refunded [Section 11E]

Presently, provisions related to assessment and recovery of tax not levied or short levied or erroneously refunded, failure to withhold sales tax and time limitation for issuance of show cause and order, are covered under section 11 of the Act. The Bill proposes to omit section 11 and introduce separate sections including section 11E which covers the provisions related to assessment of tax.

Likewise, in case of best judgment assessment as discussed above, this section also empowers the Officer of Inland Revenue to disallow input tax on goods or services if the taxpayer fails to provide documentary evidence in respect of input tax claimed.

6. Failure to withhold sales tax [Section 11F]

Presently, the officer Inland Revenue is empowered under sub-section (4A) of section 11 of the Act to recover sales tax not withheld or not deposited along with default surcharge and penalty. The Bill proposes to insert separate provision for recovery of sales tax withholding and also authorize the Officer Inland Revenue not below the rank of Assistant Commissioner for such recovery proceedings.

7. Limitation of Assessment [Section 11G]

Time limitation for assessment of tax or recovery of tax is presently covered under sub-section (5) of section 11 of the Act. The Bill proposes a separate provision to deal with limitation matters for issuance of show cause notice and passing of order under newly inserted sections 11D to 11F. However, the time limitation prescribed for issuance of show cause notice and passing of order, as currently provided under section 11(5) of the Act, remains unchanged.

The Bill further proposes to specify the relevant date for the purpose of computation of limitation period in respect of sales tax withholding proceedings as the time of payment for goods or services on which sales tax was to be withheld. The relevant date with regard to computation of limitation period of assessment of tax and recovery of refunds erroneously issued, is already defined in section 11, which is now included in newly inserted section 11G.

8. De-registration, blacklisting and suspension of registration [Section 21]

Section 21 of the Act deals with de-registration, blacklisting and suspension of registration of a registered person.

Presently, the Commissioner, Inland Revenue is empowered to blacklist such person who is found to have issued fake invoices or has otherwise committed a tax fraud in accordance with the procedures laid down by the Board.

The Bill seeks to amend the aforesaid sub-section, by including the words "issue an order of blacklisting" which intends to empower the Commissioner, Inland Revenue to issue an Order under Section 21 of the Act which is currently not covered under the substantive provision of the Act.

The Bill also seeks to insert new sub-section (5) under Section 21 of the Act whereby it has been proposed that the Chief Commissioner on his own motion or on an application made by the registered person, may call for examine the record of proceedings and the Order of blacklisting under sub-section (2) and after making such inquiry as is necessary, may modify the such order as he deem fit.

A proviso proposed along with sub section (5) under Section 21 of the Act which provides that no order shall be passed by the Chief Commissioner, under this sub-section, unless an opportunity of being head has been provided to the registered person.

Currently, the order of blacklisting passed by the Commissioner, Inland Revenue is considered to be contested directly before the Appellate Tribunal, Inland Revenue as it cannot be contested in appeal before the Commissioner (Appeals). Also, the Commissioner, Inland Revenue, who is the author of such order, is reluctant to review/rectify its own order of blacklisting especially where approval/instruction of cases issued/approved by the Board.

The proposed insertion of sub-section (5) provides aggrieved registered person with an option to obtain relief from the office of Chief Commissioner, Inland Revenue instead of contesting the order of blacklisting directly before the Appellate Tribunal which is a time taking exercise.

9. Tax Invoices [Section 23(3)]

Section 23 provides particulars and procedures for issuance of sales tax invoices under the Act by a registered person.

As per existing provision of section 23(3), a registered person making a taxable supply may be directed by the Board to issue invoices electronically to another registered person and to the Board as well as to the Commissioner subject to such conditions, restrictions and limitations as specified by notification in the official Gazette.

The Bill proposes to substitute the Sub section (3) of Section 23 of the Act consequent to which the registered person who is making a taxable supply shall issue electronic invoices subject to certain limitations/restrictions as specified by the Board through notification.

It appears that it is a corrective measure to remove anomalies and to align it with the steps taken by the Board towards digitalization of sales tax invoices.

10. Audit of sales tax affairs [Revamping of Audit Procedures (Section 25)]

The Bill seeks to substitute section 25 of the ST Act in order to revamp the audit procedures the key features of which are summarized as under:

Assistant Commissioner and above are authorized to conduct audit

- The Commissioner on the basis of reasons to be recorded in writing, may direct the officer of Inland Revenue not below the rank of Assistant Commissioner to conduct audit of sales tax affairs of any registered person and issue a notice to such registered person intimating him regarding audit of sales tax affairs.

Independent powers of Commissioner to conduct audit

- The powers of the Commissioner to conduct audit and issue notice under this section are independent of the powers of the Board under Section 72B of the Act and nothing contained in Section 72B restricts the power of the Commissioner for this purpose.

Commissioner is authorized to pass any order without providing opportunity of being heard

- The Commissioner shall communicate the reasons to recorded by the Commissioner to the registered person whose audit is to be conducted through the notice of intimation. It is explained that any order can be passed by the Commissioner without providing an opportunity of being heard before issuance of such notice.

Income Tax returns, withholding statements or third party information can be scrutinized to provide basis for sales tax audit

- The reasons shall be based on scrutiny by the Commissioner or any other sales tax authority of the available records including sales tax and federal excise returns, income tax returns and withholding statements, financial statements or third party information.

Reasons will be based other than verification of input tax, output tax, refund claim and compliance of legal provisions

- The reasons to conduct audit shall not include mere verification of input tax, output tax, refund claim and compliance of legal provisions without identifying risk factors that require such verification.

Records maintained under any other law may also be called for audit purpose

- Subsequent to the issuance of notice under sub-section (1), the officer of Inland Revenue (not below the rank of Assistant Commissioner), may call for any record or documents including record maintained under the Act, the rules made thereunder or any other law for the time being in force for conducting audit of the sales tax affairs of the person

Access to the use of machine and software in case of electronic records

- Where such record or documents have been kept on electronic data, the registered person shall allow access for the use of machine and software on which such data is kept and the authority may obtain duly attested hard copies of such information or data.

Time limitation for calling such records restricted to six(6) years

- Period of time limitation for calling such records is aligned with Section 22 of the Act i.e. six (6) years from the end of the financial year to which they relate.

In person hearing may be required

- The officer of Inland Revenue may require the person to attend at his office in person or through an authorized representative or to produce, or cause to be produced such accounts, documents or any evidence as the officer of Inland Revenue may consider necessary.

Third party inquiry can be conducted or information can be sought

- For the purpose of the audit, the officer of Inland Revenue not below the rank of Assistant Commissioner may conduct or cause to be conducted such enquiry and obtain such information from any third party as he considers appropriate.

Extensive records can be called and verification other than declared tax amount can be conducted

- The officer of Inland Revenue not below the rank of Assistant Commissioner shall conduct audit of the sales tax affairs to verify the correctness or otherwise of the

declared tax liability, output tax shown, input tax claimed, tax paid, refund claimed, stocks consumed and available and to ascertain compliance or otherwise with the provisions of this Act and the rules made thereunder on the basis of the record and evidence obtained under sub-sections (5) to (5B) and other documents maintained or furnished under this Act and the rules made thereunder or under any other law.

Audit can be conducted through video link

- The officer of Inland Revenue may conduct audit proceedings electronically through video links, or any other facility as may be prescribed by the Board.

Passing of Order under Section 11E after completion of audit is discretionary

- After completion of the audit, the officer of Inland Revenue may, if required, pass an order under section 11E, after providing an opportunity of being heard to the taxpayer under sub-section (1) of section 11E.

Best Judgment Assessment under Section 11D will be conducted where the registered person fails to provide the records

- Notwithstanding anything contained in sub-sections (7) and (9) where a registered person fails to produce before the officer of Inland Revenue, any accounts, documents and records required to be maintained under this Act or the rules made thereunder or any other relevant document electronically kept record, electronic machine or any other evidence that may be required by the officer of Inland Revenue for the purpose of audit, the officer of Inland Revenue may proceed to make best judgment assessment under section 11D of this Act.

Routine Audit of Sales Tax Affairs can be converted into Investigative Audit as per Section 25AB

- Where during the course of audit the officer of Inland Revenue suspects that such person is involved in tax fraud, he may with the approval of Commissioner, conduct an investigative audit under section 25AB.

Waiver of Penalty at initial stage

- **100% waiver**; Notwithstanding the penalties prescribed in section 33, if a registered person wishes to deposit the amount of tax short paid or amount of tax evaded along with default surcharge voluntarily, whenever it comes to his notice, before receipt of notice of audit, no penalty shall be recovered from him.

- **75% waiver**; if a registered person wishes to deposit the amount of tax short paid or amount of tax evaded along with default surcharge during the audit, or at any time before issuance of show cause notice under section 11E, he may deposit the evaded amount of tax, default surcharge under section 34, and twenty five per cent of the penalty payable under section 33.

- **0% waiver**; if a registered person wishes to deposit the amount of tax short paid or amount of tax evaded along with default surcharge after issuance of show cause notice under section 11E, he shall deposit the evaded amount of tax, default surcharge under section 34, and full amount of the penalty payable under section 33 and thereafter, the show cause notice, shall stand abated.";

The proposed amendments have revamped the whole sales tax audit procedure and widely extended its scope extraneously.

Though, certain provisions are somewhat similar to the audit procedures as prescribed under the existing provision of Section 25 of the Act read with Part-IV of Sales Tax General Order No. 3/2004 dated June 12, 2004, yet the following factors covered under existing provision of Section 25 of the Act have been ignored in the proposed provision of Section 25:

- Production of records maintained under the provisions of the Act and no third party information records are considered necessary for sales tax audit.

- Audit may be conducted once in a year (Section 25(2) read with STGO No.3/2004) where no such restrictions are provided in the proposed law.

- After completion of audit an assessment order under Section 11 shall be passed by the Officer Inland revenue which shows completion of audit whereas, it has been made optional in the proposed provision.

- Sales Tax Audit cannot be based upon the income tax return, withholding statement or any other compliance made by the registered person under any other law whereas it has been allowed under this provision.

Even the directions of devising audit policy containing timeline, procedures etc. as given by the Honorable Supreme Court in case of *Commissioner of Inland Revenue, Sialkot and others V. Messrs Allah Din Steel and Rolling Mills and others* (***2018 SCMR 1328***) are not followed while drafting the aforesaid provision of sales tax audit and which lead the whole procedure of sales tax audit beyond its scope.

The proposed amendments under Section 25 of the Act are required to be reconsidered in the light of the judgments of Courts and Appellate Forums.

11. Investigative Audit - (Section 25AB)

The Bill proposes to insert a new section 25AB titled as "Investigative Audit", by virtue of which if the Officer of Inland Revenue, not below the rank of Assistant Commissioner, based on the information provided through audit under section 25 or otherwise, on the balance of probabilities suspects that a registered person is involved in tax frauds, he can initiate the investigative audit with prior approval from the Commissioner against such person.

The Assistant Commissioner shall also be authorized to conduct the investigative audit on the basis of information obtained under Section 37, 37A, 38, 38A and 40 of the Act within ninety (90) days of the initiation of investigative audit. This proposed provision allows Assistant Commissioner, to obtain information from the registered person before conducting investigative audit which is against the spirit of the investigative audit.

After completion of the investigative audit, the Officer can take one or more of the following actions:

a) Pass an order under section 11E, after providing an opportunity of being heard to the registered person under the section on all the issue arising from the investigative audit;

b) Issue a best judgement assessment order under section 11D, where the registered person fails to produce, any accounts documents records or evidence or any other relevant document that may be required by the Officer of Inland Revenue;

c) Black list the registered person under section 21; and

d) Impose penalty and cause prosecution of the registered person as provided against Serial No. 13 of the Table under section 33.

In case, the registered person, without any reasonable cause, is unable to provide the a receipt or invoice or other evidences of the transaction or records or circumstances giving rise to such claim, the Officer may disallow input tax on goods or services and proceed to pass an order under Section 11E and 11D of the Act.

The above proposed amendment is quite vague which defeats the overall scheme and spirit of investigative audit and there will be no difference remain between the routine audit and investigative audit.

As per the existing provisions of Section 25(2), the Commissioner must be having sufficient information and evidence showing that such registered person is involved in tax fraud or evasion of tax who can then authorized the Assistant Commissioner to conduct inquiry and investigation under section 38 of the Act of the registered person. Whereas, the proposed provision of Section 25AB authorizes the Assistant Commissioner to proceed, with the approval of Commissioner, investigative audit on the basis of probabilities of tax frauds which is beyond the scheme of investigation under the existing sales tax law.

12. Returns [Section 26(2A)]

Section 26 of the Act deals with the returns filed by the registered person.

The Bill proposes to insert sub section (2A) under Section 26 of the Act which empowers the Officer Inland revenue to issue notice to any person (who, in his opinion, is required to file return under this Section but has failed to do so) to file sales tax return for a tax period or multiple tax periods, within 15 days of servicing of such notice or till such period as mentioned or allowed by the Officer.

The period of limitation for issuance of notice under this sub section is also proposed as under:

- In cases tax fraud; within fifteen (15) years from the end of the Financial Year in which the return was to be filed,

- In all other cases; within five (5) years from the end of the financial year in which the return was to be filed.

The proposed insertion of law appears to have been made in connection with the proposed insertion of section 11D to the Act, that is, Best Judgement Assessment under which the proceedings shall be conducted inter-alia in case of failure of furnishing return as required under sub section (2A) of section 26.

13. Offences and Penalties [Section 33]

Following are the important enhancement/amendments proposed in relation to the penalties prescribed under various clauses of section 33 of ST Act:

Entry No.	Offences	Relevant penalties	Proposed change
	(1)	(2)	(2)
11	(a) Submission of a false or forged document (b) destruction, alteration, or falsification of the records including a sales tax invoice; or (c) Knowingly or fraudulently making false statement, declaration	Upon conviction by a Special Judge, imprisonment for a term which may extend to three years, or with fine which may extend to an amount equal to the amount of tax involved, or with both.	Imprisonment proposed to be increased to five years if the tax evaded or sought to be evaded is upto five hundred or million or above, which may extend to ten years if the tax evaded or sought to be evaded is one billion and above and fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded. The person who abets or connives in commissioning of tax fraud shall also be liable to the above proposed penalties.
13	Any person who commits, causes to commit or attempts to commit the tax fraud, or abets or connives in commissioning of tax fraud.	Upon conviction by a Special Judge, imprisonment for a term which may extend to three years, or with fine which may extend to an amount equal to the amount of tax involved, or with both.	Imprisonment proposed to be increased to five years if the tax evaded or sought to be evaded is upto five hundred or million or above, which may extend to ten years if the tax evaded or sought to be evaded is one billion and above and fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded. The person who abets or connives in commissioning of tax fraud shall also be liable to the above proposed penalties.

Entry No.	Offences	Relevant penalties	Proposed change
	(1)	(2)	(2)
23	Any person who manufactures, possesses, transports, distributes, stores or sells goods or class of goods as specified by the Board under subsection (1) of section 40C with counterfeited tax stamps, banderoles, stickers, labels or barcodes or without tax stamps, banderoles, stickers, labels or barcodes.	In case of repeat sale of specified goods without or with counterfeited, tax stamps, banderoles, stickers, labels or barcodes, the premises used for such sale be sealed for a period not exceeding fifteen days.	The premises used for such sale shall be liable to be sealed by an officer of Inland Revenue in the manner as may be prescribed.
25	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law.	If continues to commit the same offence after a period of two months after imposition of penalty, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under section 40C.	Business premises shall be liable to be sealed by an officer of Inland Revenue in the manner as may be prescribed.

Penalties introduced:

The Bill proposes to insert the following new entry into the table in section 33 of the ST Act.

Entry No.	Offences	Penalties	Section of the Act to which offence has reference
	(1)	(2)	(3)
25AA	Any licensed integrator who is authorized to provide electronic invoicing system for integration of registered persons fails to integrate such registered persons in the manner as required under this Act and rules made thereunder.	Such person shall be liable to pay penalty of rupees one million or one percent of the total value of the sales suppressed, whichever is higher.	Sub-section (5) of section 40C.

Overriding effect of the penal provisions under the ST Act:

After the Table, the Bill proposes to insert a new subsection (2) to the section 33 of the ST Act as per which, notwithstanding anything contained in the Code of Criminal Procedure 1898 (Act V of 1898), the offences under this Act, whose punishment may extend upto ten years.

This would mean that the penalty provisions related to imprisonment, which may extend upto 10 years as stated in the ST Act, will take precedence over any conflicting provisions found in the Code of Criminal Procedure 1898.

14. Appeals to Appellate Tribunal [Section 46]

The Bill proposes to withdraw taxpayer's right of appeal before Appellate Tribunal against Order of the Commissioner for blacklisting or suspension of registration where registered person is found to have issued fake invoices or committed tax fraud. However, through proposed insertion of section 21(5), Chief Commissioner is empowered to allow relief after providing opportunity of being heard.

15. Savings (Retrospective Effect on Appeals) [Section 47AB]

The Bill proposes to insert new Section 34AB whereby the period of limitation for filing of appeal before the Appellate Tribunal and filing of Reference to High Court as that of provided under Section 46(1)(c) and 47(1) of the Act shall continue to apply for only those appeal decisions which are received prior to the amendments in the aforesaid timeline brought through the Tax Laws (Amendment) Act, 2024.

Previously, the time period for filing of appeal before the Tribunal under Section 46(1)(c) was 60 days and for filing of reference before the High Court under Section 47(1) was 90 days, prior to the amendments made through the Tax Laws (Amendment) Act, 2024.

The aforesaid time period was reduced to 30 days for both filing of appeal before the Tribunal and reference before the High Court, after the amendments made through Tax Laws (Amendment) Act, 2024.

As per the proposed amendment, the Federal Government intends to retain the previous timelines of 60 days for filing appeal before the Tribunal and 90 days before the High Court only in such cases, where the decision of Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024.

Whereas, in such cases where the decision of Commissioner (Appeals) and the Appellate Tribunal is received after the date of promulgation of the Tax Laws (Amendment) Act, 2024, the newly enacted timeline of 30 days would apply.

16. Certain transactions not admissible [Section 73]

Presently, claim of input tax is not admissible if payment for a transaction exceeding Rs. 50,000 (excluding utility bill) is made otherwise than through banking channel. The Bill proposes to cater threshold of Rs. 50,000 in aggregate relating to a supplier for payment against a sales tax invoice to determine admissibility of input tax claim

Third Schedule (Sales tax on retail price)

The Bill proposes to add DAP under serial no 51 in the Third Schedule to the Act to charge sales tax on retail price basis

Fifth Schedule (Zero Rated Supplies)

The Bill proposes to omit the following entries from the Fifth Schedule with corresponding exemption or charging sales tax on the goods at the below proposed rates:

S.No.	Description	Proposed change in sales tax rate/exemption
12	The following goods and the raw materials, packing materials, sub-components, components, sub-assemblies and assemblies imported or purchased locally for the manufacture of the said goods, subject to the conditions, limitations and restrictions as prescribed by the Board:-- i. Preparations suitable for infants, put up for retail sale not exceeding rupees six hundred per two hundred grams ii. Colors in sets iii. Writing, drawing and marking inks iv. Erasers v. Exercise books vi. Pencil sharpeners vii. other drawing, marking out or mathematical calculating instruments (geometry box) viii. Pens, ball pens, markers and porous tipped pens ix. Pencils including color pencils	Reduced rate of 10% on finished goods under serial 84 of Eighth Schedule, except for preparations suitable for infants which are proposed to be chargeable to sales tax at standard rate of 18%. Raw materials, packing materials, sub-components, components, sub-assemblies and assemblies in case of such items shall be taxable at standard rate of 18%.
16	Milk (PCT heading 04.01)	Exempt under proposed serial no. 56 in Table II of Sixth Schedule excluding the milk sold under a brand name which is proposed to be taxed at the standard rate of 18%
17	Fat filled milk (PCT heading 1901.9090)	Standard rate of 18%
21	Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified therein.	Standard rate of 18%

Sixth Schedule (Exempt Goods)

Table I – Imports or Supplies

a) Omission of items currently exempt from sales tax:

The Bill proposes to omit following entries from Table I of the Sixth Schedule thereby charging the import and local supply of the goods at the below proposed rates:

S. No.	Description	Proposed rate of sales tax
13	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)	Standard rate of 18%
15	Fruit imported from Afghanistan	Standard rate of 18%
32	Newsprint and books	Reduced rate of 10% under serial no. 91 of Eighth Schedule subject to the condition that refund of excess input tax shall not be admissible
86	Colors in sets (Poster colors)	Reduced rate of 10% under serial no. 84 of Eighth Schedule
87	Writing, drawing and marking inks	Reduced rate of 10% under serial no. 84 of Eighth Schedule
88	Erasers	Reduced rate of 10% under serial no. 84 of Eighth Schedule
89	Exercise books	Reduced rate of 10% under serial no. 84 of Eighth Schedule
90	Pencil sharpeners	Reduced rate of 10% under serial no. 84 of Eighth Schedule
96	Other drawing, marking out or mathematical calculating instruments (geometry box)	Reduced rate of 10% under serial no. 84 of Eighth Schedule
97	Pens, ball pens, markers and porous tipped pens	Reduced rate of 10% under serial no. 84 of Eighth Schedule
98	Pencils including color pencils	Reduced rate of 10% under serial no. 84 of Eighth Schedule

S. No.	Description	Proposed rate of sales tax
112	Items for cardiology / cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynaecology, disposables and other equipment *(Please refer serial no. 112 for list of items covered)*	Standard Rate of 18%
120	Diagnostic kits or equipment, *(Please refer serial 120 for list of items covered)*	Standard Rate of 18%
151	(a) Supplies; and (b) imports of plant, machinery, equipment for installation in tribal areas and of industrial inputs by the industries located in the tribal areas, as defined in the Constitution of Islamic Republic of Pakistan,– as made till 30th June, 2024, to which the provisions of the Act or the notifications issued thereunder, would have not applied had Article 247 of the Constitution not been omitted under the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018): Provided that, in case of imports, the same shall be allowed clearance by the Customs authorities on presentation of a post-dated cheque for the amount of sales tax payable under the Sales Tax Act, 1990, and the same shall be returned to the importer after presentation of a consumption or installation certificate, as the case may be, in respect of goods imported as issued by the Commissioner Inland Revenue having jurisdiction: Provided further that if plant, machinery and equipment, on which exemption is availed under this serial number, is transferred or supplied outside the tribal areas, the tax exempted shall be paid at applicable rate on residual value	6% till 30.06.2025 and 12% thereafter till 30.06.2026 as proposed under serial no. 85 of the Eighth Schedule. The reduced rate under Eighth Schedule is subject to conditions specified under provisos in column 2
152	Supplies of electricity, as made from the day of assent to the Constitution (Twenty-fifth Amendment) Act, 2018, till 30th June, 2024, to all residential and commercial consumers in tribal areas, and to such industries in the tribal areas which were set and started their industrial production before 31st May, 2018, but excluding steel and ghee or cooking oil industries	6% till 30.06.2025 and 12% thereafter till 30.06.2026 under Serial no. 86 of the Eighth Schedule
166	Goods supplied to hospitals run by the charitable hospitals of fifty beds or more.	Standard rate at 18%
169	Oil cake and other solid residues	10% under serial no 87 of the Eighth Schedule
170	Tractor	10% under serial no 88 of the Eighth Schedule
174	Machinery and equipment as listed at serial number 32 of the Table of Part-I of Fifth Schedule to the Customs Act, 1969 (IV of 1969), subject to the conditions, limitations and restrictions specified thereunder.	Standard rate of 18%

b) Limitation on scope of existing exemptions:

The Bill proposes to restrict the scope of exemption under serial 165 of Table I in respect of goods donated to hospitals run by the non-profit making institutions. Therefore, exemption available in respect of goods imported by such hospitals is proposed to be withdrawn.

c) New insertion allowing exemption of sales tax

The Bill proposes to exempt sales tax on import or supply of the following items by inserting the respective new entries under Table-I of the Sixth Schedule to the ST Act:

S. No.	Description
175	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.
176	POL products: (i) MS (Petrol) (ii) High Speed Diesel Oil (iii) Kerosene (iv) Light Diesel Oil

Table II – Local supplies only

a) Omission of items currently exempt from sales tax:

The Bill proposes to omit following entries from Table II of the Sixth Schedule thereby charging the local supply of the goods at the following proposed rate of sales tax:

S. No.	Description	Proposed rate of sales tax
7	Vermicillies, sheer mal, bun and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.	10% under serial no 89 of the Eighth Schedule
21	Poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal	10% under serial no. 90 of Eighth Schedule subject to the condition that refund of excess input tax shall not be admissible

b) New insertion allowing exemption of sales tax

The Bill proposes to exempt sales tax on local supply of the following items by inserting the respective new entries under Table-II of the Sixth Schedule to the ST Act:

S. No.	Description
56	Milk excluding that sold under a brand name
57	Iron and steel scrap

Eighth Schedule (Goods subject to Specified rates)

Table – I

a) Omission of entries

The Bill proposes to omit the following entries from the Schedule. Hence such items are proposed to be chargeable to sales tax at the standard rate of 18%.

S. No.	Description	Rate of Sales Tax	Condition
58	LPG	10%	Imports thereof and local supplies of such imported LPG
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	15%	if supplied goods are finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather subject to the condition that they have maintained 4% value addition during the last six months"; and
73	Locally manufactured Hybrid electric vehicle: (a) Upto 1800 cc (b) From 1801 cc to 2500 cc	8.5%. 12.75%	

b) Revision in reduced sales tax rate

The Bill proposes to increase the rate of sales tax on import or local supply of imported personal computers and laptops computers, notebooks from 5% to 10%

c) Change in scope of reduced sales tax rate

The Bill proposes to restrict the scope of reduced rate of 1% to the extent of substance registered as drugs under the Drugs Act, 1976. Medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 (IV of 1969) are excluded from scope of reduced rate therefore, proposed to be chargeable at a standard rate of 18%

d) New insertions

Certain proposed insertions under Eighth Schedule at reduced rates are related to items proposed to be omitted from Fifth and Sixth Schedules. Please refer our comments related to respective Schedules.

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Ninth Schedule

Table-II

Table II of Ninth Schedule contains sales tax at fixed specified rates on the basis of value of cellular mobile phones or satellite phones imported or locally manufactured in CBU or CKD condition by CMOs, importers or supplier of locally manufactured phones.

The Bill proposes to substitute Table II of the Ninth Schedule to charge sales tax at uniform rate of 18% ad valorem on imported or locally manufactured phones irrespective of its value except for sales tax at the rate of 25% on CBUs at the time of import or registration by CMOs on phones exceeding value of US$ 500

Eleventh Schedule (Rate of Sales Tax Withholding)

a) Increase in rate of withholding of sales tax

The Bill proposes to increase the rate of withholding sales tax from 75% to 80% under serial no. 7 of Table provided under Eleventh Schedule in respect of payment made to person supplying any kind of lead under chapter 78 or scrap batteries under chapter 85 of the Pakistan Custom Tariff by registered person manufacturing lead batteries.

b) New insertions

The Bill proposes to insert the rate of withholding sales tax for the following supplier categories:

S. No.	Withholding agent	Supplier / Withholdee Category	Rate or extent of deduction
9	Registered persons manufacturing cement	Persons supplying any kind of gypsum or limestone flux under chapter 25 of the PCT	80% of the sales tax applicable
10	Registered persons	Persons supplying any kind of coal under chapter 27 of PCT	
11		Persons supplying any kind of waste of paper and paper board	
12		Persons supplying any kind of plastic waste	
13		Persons supplying crush stone and silica	

c) Exclusion from the exception for withholding sales tax

Presently, an exception from withholding of sales tax has been provided to a registered person as a recipient of supply vide clause (viii) after the table in respect of supplies made by registered persons being an Active Taxpayer as defined in the Sales Tax Act, 1990 with an exception of advertisement services. The Bill proposes to further exclude the registered person supplying lead, gypsum, coal, waste of paper and paper board, plastic waste, crush stone and silica under serial 5, 7, 9, 10, 11, 12 and 13 respectively of the Table.

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Twelfth Schedule (Value Addition Tax)

Presently, Value Addition Tax (VAT) at 3% is not applicable on import of Cellular mobile phones or satellite phones falling under any PCT heading. The Bill proposes to restrict the exclusion from applicability of VAT in respect of import of cellular mobile phones or satellite phones falling under PCT heading 8517.1419, 8517.1430 and 8517.1390.

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Federal Excise Act, 2005

1. Default Surcharge [Section 8]

Earlier, the default surcharge rate was KIBOR plus 3%, which was later on amended to fixed rate of 12% through Finance Act, 2018. The Bill proposes to reinstate the rate of default surcharge at KIBOR plus 3%.

This amendment is proposed to align the default surcharge rate with the interest rates prevailing in the country. The change is ongoing and will harmonize with moving mark-up rate.

2. Offences, Penalties, fines and allied matters [Section 19]

Section 19 deals with any delays in fulfilling required compliances or duties by a person or offences and allied matters.

The Bill seeks to insert new clause (f), under sub-section (3) of Section 19, as per which any person who installs plant and machinery, having value of rupees fifty million and above, commences production or removes such plant and machinery without prior permission of the Commissioner, shall be liable to fine which may extend to fifty thousand (50,000) rupees or five (5) times of the duty involved, whichever is higher and to punishment with imprisonment which may extend to five years or both.

The Bill further proposes to insert new sub-section (10A) under section 19 of the Act which provides that if any retailer is found selling cigarettes packs without affixing, or affixing counterfeited, tax stamps, banderoles, stickers, labels or barcodes, notwithstanding any other provision of this Act, the retail outlet of such person shall be liable to be sealed in the manner as may be prescribed.

Through the aforesaid proposed amendments in the penalty provisions, the Federal Government intends introducing measures to closely monitor the new machinery installation of goods subject to FED and to further strengthen controls to avoid unethical or illegal practices within the tobacco sector.

3. Appeals to Commissioner (Appeals) [Section 33]

The Bill proposes to insert the words "of tax" after the word "assessment" under sub-section (1) of Section 33 of the Act to remove ambiguity in the updated provision of section 33 as amended through the recent Tax Laws (Amendment) Act, 2024.

4. Pecuniary jurisdiction in appeals [Section 33A]

Through Tax Laws (Amendment) Act, 2024, Section 33A has been introduced whereby an appeal pending with Commissioner – Appeals, having the value of assessment of tax or refunds of tax, exceeding five million rupees, stands transferred by June 16, 2024 to the Appellate Tribunal Inland Revenue.

Through the proposed amendment, the Bill seeks to extend the deadline of transfer of cases from Commissioner (Appeals) to the Appellate Tribunal by September 16, 2024 instead of June 16, 2024.

The tax bars and tax professionals of the country have been strongly demanding such extension soon after enactment of Tax Laws (Amendment) Act, 2024 which appears to have been considered by the federal government.

Note: The word 'tax' is incorrectly referred earlier in the provisions introduced vide Tax Laws (Amendment) Act, 2024 wherever used in this section and the word 'tax' once again proposed to be inserted which requires correction and substituted with the word 'duty' instead.

5. Savings (Retrospective Effect on Appeals) [Section 34AB]

The Bill proposes to insert new Section 34AB whereby the period of limitation for filing of appeal before the Appellate Tribunal and filing of Reference to High Court as that of provided under Section 34(1) and 34A(1) of the Act shall continue to apply for only those appeal decisions which are received prior to the amendments in the aforesaid timeline brought through the Tax Laws (Amendment) Act, 2024.

Previously, the time period for filing of appeal before the Appellate Tribunal under Section 34(1) was 60 days and for filing of reference before the High Court under Section 34A(1) was 90 days, prior to the amendments made through the Tax Laws (Amendment) Act, 2024.

The aforesaid time period was reduced to 30 days for both filing of appeal before the Tribunal and reference before the High Court, after the amendments made through Tax Laws (Amendment) Act, 2024.

As per the proposed amendment, the Federal Government intends to retain the previous timelines of 60 days for filing appeal before the Appellate Tribunal and 90 days before the High Court only in such cases, where the decision of Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024.

Whereas, in such cases where the decision of Commissioner (Appeals) and the Appellate Tribunal is received after the date of promulgation of the Tax Laws (Amendment) Act, 2024, the newly enacted timeline of 30 days would apply.

First Schedule

Table-I – Excisable Goods

The Bill proposes to insert the following new items in Table-I of the First Schedule to the FE Act levying excise duty thereon:

S. No.	Description of goods	Heading/Sub Heading Number	Rate of 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.
63	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 restriction as may be prescribed by the Board.	Respective Headings	5%*
64.	Sugar supplied by any person to a manufacturer	Respective Headings	Rupees fifteen per kg.

** The value to which such 5% rate proposed to be applied has not been prescribed.*

The Bill proposes to make amendments in rate of duty of the following items stated in Table-I of the First Schedule to the FE Act:

S. No.	Description of goods	Existing Rate of Duty	Proposed Rate of Duty
8a	E-liquids by whatsoever name called, for electric cigarette kits.	Rupees ten thousand per kg.	Rupees ten thousand per kg or sixty five percent of retail price whichever is higher.
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	Two rupees per Kilogram	Three rupees per Kilogram
56	Filter rod for cigarettes	Rupees fifteen hundred per kg	Rupees eighty thousand per kg

The Bill also proposes to make amendment in the following entries to Table-I of the First Schedule to the FE Act:

Printed retail price range enhanced for the purpose of levy of duty [Serial No. 9 & 10]

For the purpose of levy of duty under the above said entries, the existing on pack printed retail price range of the locally produced cigarettes has been enhanced as under:

S. No.	Existing Price Range	Proposed Price Range	Duty Rate
9	Exceeding Nine thousand rupees per thousand cigarettes.	Exceeding Twelve thousand five hundred rupees per thousand cigarettes.	Rupees sixteen thousand five hundred per thousand cigarettes
10	Not exceeding Nine thousand rupees per thousand cigarettes.	Not exceeding Twelve thousand five hundred rupees per thousand cigarettes.	Rupees five thousand and fifty per thousand cigarettes

Restriction on sale of new cigarettes brand at a price lower than of similar brand variant [Restriction 2]

After Table I of First Schedule, an editorial change has been proposed by substitution of the existing heading "*(2) Variants at different price points.*" with "*Restriction-2 –Brand variants at different price points*". Moreover, an explanation has been proposed to be added after the said restriction according which the term brand variant as used under the said restriction 2, has been explained whereby the term 'brand variant' shall mean any cigarette brand with similar logo, name, colour, design, pattern or any unique distinguishing mark associated with an existing brand family.

Third Schedule

Table-I – Conditional exemptions

The Bill proposes to insert the following new entry to Table-I of the Third Schedule to the FE Act, however such insertion should be numbered 27 owing the already existing entries till serial number 26:

S. No.	Description of goods	Heading/Sub Heading Number
23	Imports made 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.	99.01, 99.02 and 99.05.".

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Customs Act, 1969

1. Nuclear and Radioactive Material [Section 2(na) & (qaa)]

The Bill proposes to introduce the definitions of the following terms in section 2 of the Customs Act:

Presently, no definition of the terms 'Nuclear Material' and 'Radioactive Material' is available under the said Act. The Bill seeks to introduce definition of afore-mentioned terms having same meaning as provided in the Pakistan Nuclear Regulatory Authority Ordinance, 2001 wherein the said terms have been defined as under:

"nuclear material" means:-

(i) nuclear fuel, including natural uranium and depleted uranium, capable of producing energy by a self- sustaining chain process of nuclear fission outside a nuclear reactor, either alone or in combination with some other material; and

(ii) radioactive products or waste;

"radioactive material" means any substance which contains or consists of radioactive nuclide, naturally occurring or artificially produced, provided that the specific activity of the substance is in accordance with the levels as may be prescribed by regulations.

The above insertion has been proposed in connection with the introduction of penalty provisions proposed under the Customs Act to prevent smuggling of Nuclear and Radioactive materials in pursuance of implementation of National Nuclear Detection Architecture Regime which has been designed to prevent and respond unauthorized use and movement of nuclear and radiological materials.

2. Directorate General of National Targeting Centre (Section 3CCD)

In 2018, National Targeting Centre (NTC) was established as a part of Pakistan's efforts to enhance its border security, customs enforcement, and overall national security. The Bill proposes to establish a dedicated Directorate General of NTC to facilitate single window enforcement for all law enforcement agencies.

3. Directorate General of Trade Based Money Laundering (Section 3CCE)

The Bill seeks to insert a new section whereby a Directorate General of Trade Based Money Laundering (TBML) is to be established with the aim to consolidate efforts in combating money laundering through trade activities, enhancing regulatory measures and enforcement actions. The establishment of TBML Directorate will streamline coordination and bolster effectiveness in tackling illicit financial activities within trade channels.

4. Delegation of powers (Section 5)

The existing legislation empowers the Board to delegate authority of Collector of Customs, Additional Collector of Customs and Deputy Collector of Customs to the officers at different ranks to perform functions assigned to their higher-ups.

It is now proposed to also empower the Board to delegate any of its function and power to the Chairman as well as to delegate authority of the Board & Chairman to any Member or Director General. The Bill also seeks to delegate authority of the Chief Collector Customs to the Collector of Customs.

5. Entrustment of functions of customs officers to certain other officers (Section 6)

The Bill proposes to include name of "National Command Authority, Pakistan Nuclear Regulatory Authority" in the prescribed entities authorized to perform customs functions if so require, in order to enhance the scope and effectiveness of enforcement.

6. Assistance to the officers of customs (Section 7)

At present, various Law Enforcement Agencies (LEAs) are obliged to assist customs officers in the discharge of their functions under this Act. The Bill proposes to include the name of "Intelligence Bureau" in the list of LEAs, thereby extending assistance to the officers of customs.

7. Detention, seizure and confiscation of goods (Section 17)

At present, in case of detention, seizure or confiscation of goods which are attempted to be imported into, or exported out of Pakistan in violation of section 15 of the Customs Act, the Chief Collector or Director General may extend such detention, seizure and confiscation period beyond fifteen days. The Bill proposes to transfer this authority from Chief Collector or Director General to the Additional Collector of Customs or Additional Director.

8. General power to exempt from custom-duties (Section 19)

The Bill proposes to extend the protection, to all in field exemption notifications issued on or after the first day of July, 2016, up to June 30, 2025.

9. Provisional determination of liability [Section 81(1)]

At present, the customs officer are authorized to determine value of goods provisionally where subject goods require further inquiry however, they are not authorized to do so in cases where a Valuation Ruling (VR) is issued in terms of section 25A or even if revision is pending under section 25D. The Bill proposes to enhance such restriction in case of Publication Valuation Ruling (PVR) as well.

10. Punishment for offences [Section 156]

i. With respect to existing penalties as enlisted in the Table 1 of section 156 of the Customs Act, 1969 the Bill proposes to introduce amendments in the penal provisions in the following manner:

a. Penalties introduced:

i. The Bill proposes to introduce two new penal clauses under serial No. 8 of the Table regarding offenses related to the smuggling of goods identified and categorized as nuclear or radioactive material. The Bill seeks to introduce severe penalties on this offence, including confiscation of such goods with imprisonment which may extend to 14 years or life imprisonment, accompanied by a fine that may extend to Rs. 10 million.

b. Penalties enhanced:

i. At present, contraventions on the condition mentioned on the serial no. 83 regarding non-compliance by the police officer in relation to confiscation of goods in terms of section 170 of the Customs Act, a penalty of Rs 2,000 is applicable. The Bill proposes to enhance such penalty to Rs. 50,000.

ii. In contravention to restriction mentioned in serial no 85 of the Table (regarding intervention, obstruction in the performance of duties of a customs officer), a penalty of Rs 25,000 is proposed to be increased to not less than Rs. 100,000.

iii. At present, clauses (i) and (ii) of serial No. 89 of the Table prescribe severe penalties for holding, retailing, and dealing in smuggled goods. The Bill proposes to introduce a new clause (iii), which addresses instances of relocating, disposing, or pilfering goods from the possession of the owner of the smuggled goods. Under this new clause, the penalties may include:

- A penalty of up to ten times the value of the goods
- Imprisonment for up to six years and upon conviction from the special court may liable to pay;
    - A penalty of up to Rs. 1,000,000
    - Or both a fine and imprisonment

11. Customs Appellate Tribunal [Section 194]

The Bill proposes to substitute the entire section 194 of the Act, the key features of the substituted section are summarized as under**:**

Establishment and Powers –
The Customs Appellate Tribunal ('the Tribunal') shall be established which will exercise jurisdiction and powers, and perform functions conferred upon it under the Act.

Composition and Appointment
The Federal Government will be responsible for appointing members of the Appellate Tribunal, determining their numbers, and setting terms and conditions by rules, notwithstanding anything contained under section 219 of the Customs Act, the Federal Public Service Commission Ordinance, 1977 or under any other laws.

Existing members, including the Chairman, will remain in office under the same conditions as before the Finance Act, 2024, until their terms end unless removed earlier for specific reasons.

Eligibility criteria for Members
A person shall be eligible for appointment as a member if he meets at least any one of the below mentioned criteria:

1. High Court advocate with at least 15 years of experience, have handled at least fifty Customs cases, and meet other prescribed qualifications.

2. Customs Service officer in BS-21

3. Customs Service officer in BS-20 with at least three years in that grade.

Chairman of the Tribunal
The Chairman will be appointed from among the members who meet the criteria of being a High Court advocate. The term shall be three years, with possible reappointment.

Term and Removal of Members
Members, including the Chairman, will end their tenure upon reaching the age of 62 years. However, those covered under point 2 and 3 above will conclude their service upon reaching

the age of superannuation as per the relevant service regulations.

Based on recommendations from performance review committee, the Federal Government may remove a member, including the Chairman, before their term expires, if deemed inefficient or misconducted prescribed by the Rules having overriding effect.

Procedure – The procedure of the Tribunal, including the formation of benches, case management, case distribution, and other related matters, will be governed by the Rules made under this section.

12. Appeals to the Appellate Tribunal [Section 194A]

The substituted section explains the appeal process to the Appellate Tribunal, specifying the form, verification, fee, and timeline for filing appeals as under:

- Any person or an officer of Customs aggrieved by an order under the Act may prefer an appeal to the Appellate Tribunal within thirty days (as compared to existing sixty days, after receipt of the order).

- Specific requirements for filing an appeal are outlined, including the prescribed form, verification, prescribed fee, and time limit.

- The prescribed fee shall be Rs 20,000 in case of a company; and Rs 5,000 in case other than a company. Comparatively, the existing fee is Rs 1,000 for both, companies and other than companies.

- The Appellate Tribunal may admit an appeal after the expiration of the specified period under certain conditions.

- **Provisions regarding the payment of tax and stay against recovery**

  Notwithstanding that an appeal has been filed under this section, duty or tax shall, unless recovery thereof has been stayed by the Appellate Tribunal, be payable in accordance with the assessment made in the case.

  Provided, that on filing of application in a particular case, the Appellate Tribunal may after affording an opportunity of being heard to the Collector having jurisdiction, for reasons to be recorded, stay the recovery of duty and taxes for 30 days but such stay shall in no case exceed 90 days.

- Notwithstanding that where an officer of lower rank, other than that of the Collector of Customs, prefers an appeal with the approval of Collector, the same shall be deemed to have been filed by the Collector and shall not be declined solely on this ground.

13. Decision of Appeals by the Appellate Tribunal [Section 194B]

The substituted section stipulates that the Appellate Tribunal must decide appeals within a certain timeframe, along with provisions for alternative dispute resolution and case management as follows:

- **Enhancement in specified time frame for deciding appeal**

  i. The Appellate Tribunal shall decide the appeal within 90 days of its filing (as compared to 60 days under existing provisions of the Act except in case of smuggle in which case the period is 30 days).

  ii. Where an appeal is not decided within the aforesaid period, the Appellate Tribunal with consent of both parties

and upon reasons to be recorded in writing may extend such period for a further period of 60 days.

- **Provisions regarding the first hearing and granting of adjournments**

  i. At the first hearing of appeal, the Appellate Tribunal shall:

  (a) bring to the notice of the appellant; the provisions relating to alternative dispute resolution under section 195C of the Act; and

  (b) if the appellant declines the option of alternative dispute resolution and wishes to continue with the appeal, fix date or dates for hearing and decision of the appeal in consultation with both the appellant and respondent and in accordance with the rules.

  ii. The Appellate Tribunal shall decide the appeal on the date or dates fixed, and no adjournment shall be granted except:

  (a) where there are compelling reasons for adjournment, to be recorded by the Appellate Tribunal; and

  (b) on mandatory payment of such cost as the Appellate Tribunal may deem fit, which shall not be less than Rs 50,000.

- **Powers of the Appellate Tribunal regarding assessment orders**

  i. In order to rectify any errors apparent from record, the Appellate Tribunal may at any time within 15 days from the date of communication of order, amend any order passed by it. However, the Appellate Tribunal shall not amend an order which has the effect of increasing the liability or reducing the refund unless the concerned party is served with a notice of such intention and provided with an opportunity of being heard.

  ii. The Appellate Tribunal shall communicate its order to the parties involved in the appeal.

  iii. As otherwise provided in section 196, the decision of the Appellate Tribunal on an appeal shall be final.

14. Procedure of Appellate Tribunal [Section 194C]

The Bill proposes to omit section 194C of the Act being redundant as procedure of the Appellate Tribunal has already been specified under section 194 proposed to be substituted by the Bill.

15. Alternative Dispute Resolution (ADR) [Section 195C]

The substituted section provides for the resolution of disputes, including the appointment of committees, application requirements, and withdrawal of litigation. The key features of the substituted provisions are summarized as under:

- **Criteria for applying to the Board for dispute resolution:**

  Notwithstanding any other provision of the Customs Act or rules made thereunder, an aggrieved person in connection with any dispute pertaining to:

  (a) liability of customs-duty,
  (b) admissibility of refund or rebate,
  (c) waiver or fixation of penalty or fine,
  (d) confiscation of goods,

(e) relaxation of any time period or procedural and technical condition which is under litigation in any court of law or an appellate authority may apply to the Board for the appointment of a committee, except in the cases where criminal proceedings have been initiated or where interpretation of question of law having larger revenue impact in the opinion of the Board is involved.

- **Requirements for the application and initial proposition for resolution**

  The application for dispute resolution shall be accompanied by an initial proposition for resolution of the dispute, including an offer of payment of duties and taxes.

- **Appointment of ADR Committee**

  i. After examination of the application, the Board may appoint a committee within 15 days of such application, consisting of total three persons qualified as under:

     (a) a retired judge not below the rank of a judge of a High Court, who shall also be the Chairperson of the Committee, to be nominated by the Board from a panel notified by the Law and Justice Division for such purpose;

     (b) an officer of customs not below the rank of Chief Collector having jurisdiction over the case;

     (c) a person to be nominated by the applicant from a panel notified by the Board, comprising-

        (i) chartered accountants and advocates, having minimum ten years' experience, in the field of taxation; and

        (ii) reputable businessmen as nominated by Chambers of Commerce and Industry:

        Provided that the taxpayer shall not nominate a chartered accountant or an advocate if the said chartered accountant or the advocate is or has been an auditor or an authorized representative of the taxpayer; and

        (iii) officer of Customs Service of Pakistan who stood retired in BS 21 or above.

  ii. Upon appointment of the Committee, the Board shall communicate the order of such appointment to the parties involved.

- **Decision of ADR Committee**

  The Committee shall decide the dispute by majority, within 45 days of its constitution, which is extendable by another 15 days for the reasons to be recorded in writing. Accordingly, the decision shall stand modified to that extent and the aggrieved person shall make payment as decided by the Committee.

  If the aggrieved person is satisfied with the Committee's decision, he shall withdraw the appeal pending before the court of law or any appellate authority and communicate the order of withdrawal to the Collector within 30 days of the service of the decision.

  The Committee's decision shall be binding on the Collector of Customs who shall also withdraw

the appeal, if any, within 30 days of the communication of withdrawal of Appeal by the aggrieved person to the Collector.

- **Stay against recovery of duties and taxes payable**

  The recovery of duties and taxes owed by the applicant shall be deemed to have been stayed from the date of appointment of the Committee until its decision or dissolution, as the case may be.

- **Dissolution of ADR Committee**

  The Board shall dissolve the Committee by an order in writing, if the Committee fails to make recommendations within 60 days of its appointment. On receipt of the order of dissolution, the appellate authority shall decide the appeal within stipulated period as provided under the relevant provision of the Act.

16. Reference to High Court [Section 196]

The substituted section provides for the modification of the procedure for referring cases to the High Court, including the establishment of Special Benches, time limits, and application fees. The key features of the substituted section are summarized as under:

- **Filing a reference to the High Court**

  Within 30 days of the communication of the order of the Appellate Tribunal, the aggrieved person or any officer of Customs not below the rank of Deputy Collector or Deputy Director, authorized by the Collector or Director in writing, may file a reference in the prescribed form, along with a statement of the case, before the High Court, stating:
  a. any question of law or
  b. a mixed question of law and fact arising out of such order.

  Provided that the applicant shall also file complete record of the Appellate Tribunal within 15 days of preferring an application under this section.

- **Composition and procedure for hearing in references by the High Court**

  A reference to the High Court under this section shall be heard by a Special Bench, constituted for hearing cases under this section, comprising of not less than two judges of the High Court and, in respect of the reference, the provisions of section 98 of the Code of Civil Procedure, 1908 (Act V of 1908), shall apply to the extent possible to such cases, notwithstanding anything contained in any other law for the time being in force.

- **Timeframes for deciding references, establishment of a case management system, and communication of the High Court's judgment**

  i. The Special Bench shall decide a reference within six months from the date of its filing.
  ii. The High Court shall establish a case management system to ensure that sufficient number of Special Benches are constituted, so as to ensure that a reference filed under this section is decided within the stipulated six months.

  iii. The High Court upon hearing a reference under this section shall decide the question of law raised by the reference and pass judgment thereon specifying the grounds on which such judgment is based and the Appellate Tribunal's order shall stand modified accordingly.

  iv. The Court shall send a copy of the judgment under the seal of the Court to the Appellate Tribunal.

v. Notwithstanding that a reference has been filed before the High Court, the tax shall be payable in accordance with the order of the Appellate Tribunal.

vi. The duty or tax recovery shall not be made by the Collector for 15 days from the date of communication of the order of the Appellate Tribunal.

vii. If the amount of duty or tax is reduced as a result of the judgment in the reference and any amount of duty or tax is found to be refundable, the High Court may, on application submitted by an officer of Customs authorized by the Collector or Director within 30 days of the judgment of the High Court mentioning that he wants to prefer petition for leave to appeal to the Supreme Court, make an order authorizing the Collector to postpone the refund until the disposal of the appeal by the Supreme Court.

viii. Where recovery of duty or tax has been stayed by the High Court by an order, such order shall cease to have effect on the expiration of a period of six months following the day on which it was made unless the reference is decided or such order is withdrawn by the High Court earlier.

ix. Section 5 of the Limitation Act, 1908 (IX of 1908), shall apply to an application made to the High Court under sub-section (1).

x. An application under sub-section (1) by a person other than the officer of Customs authorized by the Collector or Director shall be accompanied by a fee of Rs. 50,000.

xi. Notwithstanding anything in the Customs Act, where any reference or appeal was preferred with the approval of Collector by the officer below the rank of Collector, and the reference or appeal is pending before appellate forum or the Court, such reference or appeal shall be deemed to have been preferred and shall be deemed always to have been so preferred by the Collector or Director.

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