



TAX | CORPORATE | ACCOUNTING | AUDIT

FINANCE BILL 2024-25

HIGHLIGHTS & COMMENTARY



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Executive Summary

The Finance Bill 2024 is a delicate balancing act for the government, as it strives to implement stringent fiscal measures to meet the International Monetary Fund's (IMF) conditions while providing essential relief to citizens and preserving its fragile political capital. The IMF's primary conditions include raising the tax revenue target, eliminating subsidies, introducing taxes on the agricultural sector, increasing levies and taxes on the power, gas, and oil industries, privatizing underperforming state-owned enterprises and units, and enhancing administrative efficiency.

Pakistan's Economic Survey 2023-24 paints a mixed picture of the country's economy. The real GDP growth rate stood at 2.38%, the lowest in nine years, with a nominal GDP of Rs. 78.7 trillion. The per capita income was \$1,562, while the inflation rate soared to 27.3%, the highest in 48 years. The fiscal deficit also remained high at 7.9% of GDP. The agriculture sector, which is a significant contributor to the economy, grew at a rate of 1.6%. However, cotton production, a key crop, declined to 8.5 million bales, the lowest in three years. Wheat production, on the other hand, stood at 26.2 million tons, while sugarcane production reached 83.4 million tons.

In the industrial sector, large-scale manufacturing grew at a rate of 3.6%, with the textile sector expanding by 3.3% and the food processing sector by 4.1%. The services sector, which includes wholesale and retail trade, transport, storage, and communication, grew at a rate of 3.4%. The external sector remained a concern, with a current account deficit of \$17.4 billion and a trade deficit of \$31.8 billion. However, remittances from overseas Pakistanis remained a bright spot, reaching \$31.7 billion. Foreign exchange reserves stood at \$10.3 billion. On the social front, the population growth rate remained high at 2.05%, while the unemployment rate stood at 6.5%. The poverty headcount ratio was 39.2%, and Pakistan ranked 147 out of 189 countries in the human development index (HDI).

To stimulate economic activity, the National Economic Council has approved a Public Sector Development Program (PSDP) allocation of Rs. 3.8 trillion, prioritizing critical infrastructure, energy, transport, and communication projects. Securing necessary external financing will be crucial in driving economic growth. The Federal Board of Revenue (FBR) has been tasked with increasing tax collection by 30%, a challenging target in a low-growth economy. Achieving this goal will require robust enforcement and overcoming administrative inefficiencies within the FBR.

The government recognizes the need to alleviate the hardships faced by the public, particularly the most vulnerable segments of society. Therefore, the budget incorporates targeted social safety nets, subsidies, and development programs designed to mitigate poverty and promote social welfare. By adopting a dual approach of austerity and relief, the government aims to preserve the political stability necessary for enduring economic reform. The successful implementation of this budget will be pivotal in stabilizing the economy and restoring investor confidence.

An overview

Income Tax

- Withholding tax in the case of sale of unlisted company shares is required to be paid within fifteen days of payment against the purchase of shares the date of registration of shares, in case otherwise a penalty of 50% of tax will be imposed.
- 15% capital gains tax on sale of listed securities and immovable properties to be applies to ATL-listed persons regardless of holding period. Non-ATL-listed persons are to be taxed at normal rates, capped at 15% for individuals and AOPs, and corporate rates for companies.
- Mutual funds and REITs to deduct 15% for individuals and 25% for companies on redemption of securities.
- Tax on stock funds with higher capital gains than dividends increased from 12.5% to 20%.
- Withholding tax on sale and purchase of immovable property: 3% (up to Rs. 50M), 3.5% (Rs. 50-100M), 4% (above Rs. 100M). Non-ATL buyers: 12% (up to Rs. 50M), 16% (Rs. 50-100M), 20% (above Rs. 100M). Enhanced rates for ATL persons not filing returns: 6% (up to Rs. 50M), 7% (Rs. 50-100M), 8% (above Rs. 100M).
- Dividend tax for mutual funds, REITs increased from 15% to 25% if 50% or more income is from profit on debt.
- Exporters are proposed to be under minimum tax regime.
- 100% tax credit for coal mining projects in Sindh restricted to income from operations only.
- Royalty expenses in case of transaction between associates to be restricted to 50% of sales promotion, advertisement, and publicity.
- Proposed withholding tax rates for toll manufacturing: 9% for companies, 11% for others.
- FBR is empowered to set minimum value for withholding tax collection on imports.
- Expanded scope of collection of 1% withholding tax from retailers, distributors, and wholesalers to more sectors, with enhanced rates for non-filers: 2% for distributors/wholesalers, 2.5% for retailers.
- New tax slabs for individuals and AOPs with rates ranging from 0% (up to Rs. 600,000) to 45% (above Rs. 5.6M).
- Proposed withdrawal of certain exemptions and concessions, including subsidy income, teacher/scholar tax liability reduction, and extended exemptions for FATA/PATA residents.
- Alignment of bad debt expense disallowance with IFRS 9.
- Requirement to declare foreign assets in wealth statements.
- Clarified assessment value calculation for appeal jurisdiction, extended case transfer deadline from June 16, 2024 to Sep 16, 2024.

- Exemption for AOP members with turnover over Rs. 300M contingent on filing audited financial statements.
- Travel restrictions and enhanced tax rates on non-filers, including 75% on phone/internet bills.
- Applied enhanced rates to ATL-listed non-filers, extended withholding tax scope, and specified exceptions.
- Proposed rate change for default surcharge to KIBOR plus 3% instead of 12%.
- Empowered Commissioner to seal shops and impose imprisonment/fines for non-registration under the Tajir Dost Scheme.
- Introduced penalties up to Rs. 200M for non-compliance with FBR's General Order.
- Proposed penalties for incomplete/incorrect tax return information and potential prosecution.
- Authorized FBR to share data with NADRA to expand the tax base.

Sales tax

- Definition of "time of supply" is proposed to be changed to make it earlier of delivery of goods or payment.
- FBR empowered to set minimum prices for the Third Schedule goods.
- Sales Tax on DAP added to the Third Schedule, subject to sales tax at retail price on manufacturing or import.
- Petroleum Products - Zero-rating converted to exemption.
- Mobile Phones - Standard rate of 18% applied, except phones over \$500 taxed at 25%.
- Zero Ratings withdrawn - Specified goods and materials used in infant preparations, stationary items, and certain dairy products have been zero-rated. Local supplies to registered exporters under Export Facilitation Scheme zero-rated.
- Eighth Schedule
 - o Sales tax on imported personal computers and laptops increased from 5% to 10%.
 - o Medicaments reclassified to standard rate of 18%.
 - o LPG, certain retail supplies, and locally manufactured hybrid vehicles taxed at 18%.
 - o Specified stationary items taxed at 10%.
- Exemptions and Withdrawals - Various goods and supplies previously exempt now proposed to be taxed at varying rates up to 18%.
- New Exemptions - Milk (excluding branded) and iron and steel scrap exempt.
- Default Surcharge - Aligned with SBP's KIBOR plus 3%.
- Withholding Sales Tax - Withholding tax rate increased to 80% on lead batteries and other specified supplies.
- Assessment of Tax, Tax Audit, Recovery of Tax - Revamped assessment, audit, and recovery provisions to tighten compliance and address evasion.
- Tax Fraud - Strengthened provisions and redefined "tax fraud".
- Penalties and imprisonment terms specified for tax fraud and abetment.
- Blacklisting - Streamlined process for declaring a person blacklisted with rights for appeal and review.

- Electronic Invoices - Mandatory integration with FBR's electronic invoicing system.
- Business places failing to integrate may be sealed.
- Pecuniary Jurisdiction in Appeal - Extended deadline for transferring pending appeal cases to September 16, 2024. Period of limitation for appeal filing continues to apply for decisions received before the Tax Laws (Amendment) Act, 2024 commencement.

Federal Excise Duty

- 5% FED will be imposed on commercial properties and the first sale of residential properties.
- The rate of FED on cement is set to increase from Rs. 2 per kg to Rs. 3 per kg.
- An FED of Rs. 15 per kg is proposed for the supply of sugar to manufacturers.
- FED of Rs. 44,000 is proposed on acetate tow.
- FED of Rs. 1,200 per kg will be imposed on nicotine pouches, enhancement of the FED on e-liquids, rate of FED on filter rods will be raised from Rs. 1,500 per kg to Rs. 80,000 per kg. Authorities will be empowered to seal the business premises of retailers selling illicit cigarettes.
- Diplomats and diplomatic missions will be exempted from FED.
- Price Threshold for Local Cigarettes: The price threshold for locally manufactured cigarettes will be increased from Rs. 9,000 to Rs. 12,500.

Customs Duty

- The government proposes to revoke the custom duty exemption on the import of luxury electric cars.
- The exemption on custom duty for the import of Hybrid electric vehicles has been abolished.
- Custom duties on steel and paper products will be increased.
- Import duties on glass products will also see a hike.
- To encourage the manufacturing of Solar Panels, custom duties on the import of raw materials will be reduced for registered manufacturers.

Petroleum Levy

Proposed minimum and maximum revised petroleum levy.

Income Tax

Withholding tax on acquisition of shares of unlisted companies

The Finance (Supplementary) Act, 2023 introduced withholding tax on shares of unlisted companies at the rate of 10% of the fair market value of the shares, that was required to be paid to the Government by the acquirer of shares within fifteen days of the date of payment.

The Bill has proposed to introduce the timing of withholding tax to be made either at the time of payment or at the time of registration of shares by the Securities and Exchange Commission of Pakistan or by the State Bank of Pakistan, whichever is earlier. The withholding tax would need to be deposited to the Government within fifteen days of the date of withholding tax.

Further, the Bill has also proposed to pay a penalty equal to fifty percent of the amount of tax involved, where any person fails to pay aforementioned tax.

Capital gains on securities – Section 37A

For tax years 2015 and onwards, the bill has proposed the following rates on disposal of securities acquired on or after 1st day of July, 2024:

- If the person is appearing on the ATL on the date of acquisition and the date of disposal of securities - 15%, irrespective of the holding period; and
- If the person is not appearing on the ATL on the date of acquisition and date of disposal of securities:
 - at normal rates applicable to individuals and association of persons (with the cap rate of 15%)
 - at corporate rate of tax for companies

The persons not appearing on the ATL are not to be subject to the enhanced rates of withholding under the tenth Schedule as the Bill has proposed to exclude section 37A from the scope of the Tenth Schedule.

Further, the bill has proposed that a mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax at the following rates, on redemption of securities as prescribed:

Category	Existing Rates	Proposed Rates
Individual and association of persons	10% for stock funds 10% for other funds	15% for stock funds 15% for other funds
Company	10% for stock funds 25% for other funds:	15% for stock funds 25% for other funds:

The rate of tax in case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction has been increased from 12.5% to 20%.

For tax year 2024, the rates of tax currently applicable as per holding period of the securities are intact.

Capital Gain on disposal of immovable properties

For tax years 2015 and onwards, the bill has proposed the following rates on disposal of immovable property acquired on or after 1st day of July, 2024:

- If the person is appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities - 15%, irrespective of the holding period; and
- If the person is not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of securities:
 - o at normal rates applicable to individuals and association of persons (with the cap rate of 15%)
 - o at corporate rate of tax for companies

Withholding taxes on immovable properties

Withholding tax rates on **sale** of immovable properties under sections 236C have been proposed as follows:

S. No	Amount	Tax Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	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%

Withholding tax rates on **purchase** of immovable properties under sections 236K have been proposed as follows:

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

Further, the Bill has proposed that persons not appearing on the ATL, purchasing immovable properties shall be subject to withholding tax under section 236K at the rate of:

- 12% where the FMV of the property does not exceed Rs. 50 million,
- 16% where the FMV exceeds Rs. 50 million but not exceeding Rs. 100 million, and
- 20% where the FMV exceeds Rs. 100 million.

Where tax is required to be collected in respect of persons appearing on the active taxpayers' list who have not filed the return by the due date, the rates of withholding taxes shall be enhanced as follows:

Section 236C Sale of immovable property	Where the gross amount of consideration received does not exceed Rs. 50 million	6%
	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
	Where the gross amount of consideration received exceeds Rs. 100 million	8%
Section 236K Purchase of immovable property	Where the FMV of the property does not exceed Rs. 50 million	6%
	Where the FMV of the property exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
	Where the FMV of the property exceeds Rs. 100 million	8%

Tax on dividends from mutual funds and REITs

Currently, dividend in case of mutual funds, Real Estate Investment Trusts are taxed at 15%. The Bill has proposed that rate of tax on dividend received from mutual funds deriving fifty percent or more income from profit on debt shall be 25%.

Tax on exporters

The exporters are subject to final taxation to the extent of withholding tax they suffer on export proceeds, unless they opt out from the final tax regime. The Bill has proposed to bring the exporters in the normal tax regime whereby the withholding tax on the export proceeds shall be minimum tax and if their tax liability on net income is higher than the withholding tax then they will be chargeable to such higher amount of income tax.

Tax credit for coal mining companies

The 100% tax credit available to coal mining projects in Sindh, supplying coal to power generation projects has been proposed to be restricted to the income derived from the operations of such coal mining projects. Currently it is being allowed to other income of such project as well.

Royalty expense for associates

The Bill has proposed to disallow the royalty expense to the extent of twenty five percent of the total expenditure for the tax year in respect of sales promotion, advertisement and publicity. This disallowance is to be made for the tax year 2024 and onwards, 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.

Quarterly advance tax

An individual or AOP taxpayer is required to enhance the turnover by 110% of the one-fourth of the turnover of the latest assessed tax year in cases where the taxpayer fails to provide turnover or the turnover for the quarter is not known. The Bill has proposed to increase the enhancement of turnover of 110% to 120%.

Further, the Bill has proposed to reintroduce the requirements that where the taxpayers file the lower estimate of their estimated tax payable to discharge the advance tax liability, such taxpayers shall be required to provide the turnover for the completed quarters of the relevant tax year, estimated turnover for the remaining quarters, supporting evidence of expenses or deductions in computing income, evidence of tax payments and tax credits and computation of estimated taxable income. The Bill has also proposed to reintroduce the powers of the Commissioner to reject the estimate where the Commissioner is not satisfied with the documentary evidence provided or where an estimate of the amount of tax payable is not accompanied by the aforementioned details.

Withholding tax on toll manufacturing – Section 153

The bill has proposed to enhance the withholding tax rates for payment on account of toll manufacturing as follows:

- (i) Company: 9% of the gross amount payable
- (ii) Other than a company: 11% of the gross amount payable

Withholding taxes on purchase, transfer, registration of motor vehicles

The Bill has proposed the following rates on purchase, transfer and registration of motor vehicles:

S. No	Engine capacity	Rate of Tax
1	Upto 850 cc	0.5% of the value
2	851cc to 1000cc	1% of the value
3	1001cc to 1300cc	1.5% of the value
4	1301cc to 1600cc	2% of the value
5	1601cc to 1800cc	3% of the value
6	1801cc to 2000cc	5% of the value
7	2001cc to 2500cc	7% of the value
8	2501cc to 3000cc	9% of the value
9	Above 3000cc	12% of the value

Withholding tax on imports

The Bill has proposed to empower the Board to determine the minimum value of goods for the purpose of collection of advance tax on import under section 148. The minimum value for this purpose shall be the value 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.

Reduced rate certificate (Withholding tax)

The Bill has proposed to replace the exemption certificate to lower rate certificate. We understand that the intention here is to keep the right to obtain exemption from withholding tax intact and the withholding tax at zero percent shall also be available in the lower rate certificate.

Advance tax collection at source from wholesalers and retailers

The Bill has proposed to enhance the scope of withholding tax at source required to be collected by the manufacturers and commercial importers from the wholesalers, distributors and retailers. Currently, this withholding tax @ 1% is only for the wholesalers, distributors and retailers in the pharmaceuticals, poultry and animal feed, edible oil and ghee, auto-parts, tyres, varnishes, chemicals, cosmetics, IT equipment, electronics, sugar, cement, iron and steel products, fertilizer, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector.

The non-filers or persons not appearing in the ATL shall be subject to enhanced withholding tax rates of 2% for distributors and wholesalers and 2.5% for retailers.

Income tax rates for individuals and AOPs

The individuals and AOPs shall now be charged to income tax in tax year 2025 at:

S. No	Slab	Tax Rates
1.	Up to Rs 600,000	0%
2.	Rs 600,001 to Rs 1,200,000	15% of the amount exceeding 600,000
3.	Rs 1,200,001 to Rs 1,600,000	Rs 90,000 + 20% of the amount exceeding 1.2 M
4.	Rs 1,600,001 to Rs 3,200,000	Rs 170,000 + 30% of the amount exceeding 1.6 M
5.	Rs 3,200,001 to Rs 5,600,000	Rs 650,000 + 40% of the amount exceeding 3.2 M
6.	Above Rs 5,600,000	Rs 1,610,000 + 45% of the amount exceeding 5.6 M

The salaried individuals shall be taxed in tax year 2025 at:

S. No	Slab	Tax Rates
1.	Up to Rs 600,000	0%
2.	Rs 600,001 to Rs 1,200,000	5% of the amount exceeding 600,000
3.	Rs 1,200,001 to Rs 2,200,000	Rs 30,000 + 15% of the amount exceeding 1.2 M
4.	Rs 2,200,001 to Rs 3,200,000	Rs 180,000 + 25% of the amount exceeding 2.2 M
5.	Rs 3,200,001 to Rs 4,100,000	Rs 430,000 + 30% of the amount exceeding 3.2 M
6.	Above Rs 4,100,000	Rs 700,000 + 35% of the amount exceeding 4.1 M

Exemptions & Concessions

The Bill has proposed to withdraw the exemption to income of a person as represents a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf.

The Bill has proposed to extend the exemption from income tax and withholding taxes to the resident persons of the FATA/PATA from tax year 2024 to tax year 2025.

The rate of withholding tax on payment from the distributors of cigarette and pharmaceutical products has been enhanced from 1% to 2.5% of the gross amount of payment.

The reduction in the tax liability of 25% available to the full-time teachers and scholars has been proposed be withdrawn.

Seventh Schedule – Banking Companies

Currently, the banking companies are not allowed to claim expense of the amount of “bad debts” classified as sub-standard or doubtful under the Prudential Regulations issued by the State Bank of Pakistan. The Bill has proposed to make the disallowance to make it in line with the IFRS 9 and accordingly, they will not be allowed to claim expense of the amount of “bad debts” classified as “substandard” or “doubtful” under the Prudential Regulations issued by the State Bank of Pakistan or provisions for advances, off-balance sheet items or any other financial asset classified in stage I, II or III as performing, under-performing or non-performing under any applicable accounting standard including IFRS 9. However, only “bad debts” classified as “loss” pertaining to non-performing assets under the Prudential Regulations issued by the State Bank of Pakistan shall be allowed as expense.

Further, the Finance Bill also proposes that the banking companies will not be allowed to claim expense for the provisions for Expected Credit loss 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.

Further, it has been proposed to clarify for removal of doubt that the banking companies will be chargeable to super tax for the tax year 2023 and for all subsequent tax years.

Declaration of foreign assets in the wealth statement

The Bill has proposed to clarify that the persons required to file wealth statements shall be required to declare the foreign assets as well.

Best judgment assessment

The Bill has proposed to extend the scope of best judgment assessment under section 121 of the Ordinance to the case where a person is directed to file the return of income on discontinuance of business.

Further, the Bill has proposed to introduce the penalty for those taxpayers who do not file the return on discontinuance of business as per the directions of the Commissioner, equal to the higher of the following:

- (a) 0.1% of the tax payable in respect of that tax year for each day of default;
- (b) Rs. 1,000 per day of default with minimum penalty of Rs. 10,000 in case of individuals and Rs. 50,000 in other cases.

Revisions of assessment

The Commissioner can call for record to revise the order passed by any officer other than the Commissioner (Appeals). The Finance (Supplementary) Act, 2023 restricted these powers to the cases where the value of assessment or refund was Rs. 20 million. The Bill has proposed to remove the aforesaid limit of assessment or refund.

Pecuniary jurisdiction in appeals

The Tax Amendment Act 2024 introduced section 126A in the Ordinance which *interalia* introduced a pecuniary jurisdiction that the cases having assessment or refund exceeding Rs. 20 million to be appealed before the Tribunal and those not exceeding to be appealed before the Commissioner (Appeals). The Bill has proposed to clarify that the value of assessment for this purpose will be the increase in tax liability in the assessment order and the refund means the net reduction in refund in the assessment order. Further, the Bill has proposed to extend the deadline of the transfer the pending cases before the Commissioner (Appeals) to the Tribunal from June 16, 2024 to September 16, 2024.

The Bill has also made some corrections to streamline the pecuniary jurisdiction with other provisions of the Ordinance dealing with the appeals, which could not be addressed in the Tax Amendment Act 2024.

The Bill has also proposed that the period of limitation for appeal filing shall continue to apply where any decision of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024.

Audit of AOPs

The share of a member of an association of persons is exempt and the AOP is taxable. The Bill has proposed that the exemption to members of AOPs having turnover of three hundred million rupees or above during the tax year or any of the preceding tax years shall not be exempt if financial statements duly audited by a firm of Chartered Accountants, or a firm of Cost and Management Accountants have not been filed along with return of income by the AOP.

Restriction on non-filers

For persons having been notified by the FBR as non-filers under section 114B, the Bill has proposed the following restrictions and taxes:

- Restriction on foreign travel from the country for a citizen of Pakistan, excluding persons holding National Identity Card for Overseas Pakistanis (NICOP), minors, students and such other classes of persons as notified by the FBR.
- Collection of tax under section 236 at the rate of 75% of the amount of telephone / mobile bill or sale price of internet pre-paid card or prepaid telephone card or sale of units to any electronic medium or whatever form.

Enhanced withholding tax for non-filers – Tenth Schedule

Currently, enhanced withholding tax rates are applicable to the persons not appearing in the ATL. The Bill has proposed to apply the enhanced withholding tax rates even to a person who appears in the ATL however has not return by the due date. The payer would now need to identify the status of filing of the return of the recipient of payments in order to determine whether to apply the normal withholding tax rate or the enhanced ones.

Persons not on the ATL are subject to 100% enhanced withholding tax rates. The Bill has extended the enhancement of withholding tax rates wherever provided under the Ordinance. The specific exceptions provided are intact. The bill has proposed to exclude withholding tax on capital gain on disposal of listed securities subject to section 37A from the scope of enhanced withholding tax rates due to non-appearance in the ATL.

Persons not on the ATL shall also be subject to enhanced withholding tax on profit on debt (bank profits etc.) at the rate of 35% (currently 30%), on sale of immovable property at the rate of 10% (currently 6%) of the FMV of the property.

Retailers not on the ATL shall also be subject to enhanced withholding tax rates of 2.5% under section 236H. Distributors and wholesalers not on the ATL shall pay withholding tax @ 2% under section 236G of the Ordinance.

Persons not on the ATL, purchasing immovable properties shall be subject to withholding tax under section 236K at the rate of 12% where the FMV of the property does not exceed Rs. 50 million, at the rate of 16% where the FMV exceeds Rs. 50 million but not exceeding Rs. 100 million, and at the rate of 20% where the FMV exceeds Rs. 100 million. Where tax is required to be collected in respect of persons appearing on the active taxpayers' list who have not filed the return by the due date, the rates of withholding taxes shall be enhanced as follows:

Section 236C – Purchase of immovable property	Where the gross amount of consideration received does not exceed Rs. 50 million	6%
	Where the gross amount of consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
	Where the gross amount of consideration received exceeds Rs. 100 million	8%
Section 236K – Sale of immovable property	Where the gross amount of FMV does not exceed Rs. 50 million	6%
	Where the gross amount of FMV exceeds Rs. 50 million but does not exceed Rs. 100 million	7%
	Where the gross amount of FMV exceeds Rs. 100 million	8%

Default Surcharge

The rate of default surcharge on late payment of tax has been proposed to be KIBOR plus three percent instead of the current rate of 12%.

Penalty for not registration under the Tajir Dost Scheme

The Bill has proposed to empower the Commissioner to seal the shop of such person for seven days for first default and for twenty-one days for each subsequent default.

The persons who fail to register under the Tajir Dost Scheme shall be treated to have committed an offence punishable on conviction with imprisonment for a term not exceeding six months or fine or both.

Penalty for non-compliance with FBR's General Order

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.

Penalty for misdeclarations or non-declaration of any information required in the return of income

The Bill has proposed to impose penalty of Rs. 500,000 or 10% of the tax payable, whichever is higher, on the companies and AOPs 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
- (c) attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.

Such persons have also been proposed to be prosecuted shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year or both.

NADRA to analyze the data for broadening of tax base

The Bill has proposed to allow the FBR to share the data with NADRA for the purpose of broadening of tax base.

Sales Tax

Time of supply

Currently, the time of supply for the incidence of sales tax is the time at which the goods are delivered or made available to the recipient of the supply. The Bill has proposed that the time of supply will be the time at which the goods are delivered or made available to the recipient of the supply or the time when any payment is received by the supplier in respect of that supply, whichever is earlier.

Value of supply

The FBR has been proposed to be empowered to fix the minimum price of goods listed under the Third Schedule.

Sales Tax on DAP

Diammonium phosphate (DAP) has been added in the Third Schedule meaning thereby that it shall be subject to sales tax on retail price at the stage manufacturing or import, as the case may be

Petroleum Products

The zero-rating of petroleum products will be converted into an exemption.

Mobile Phones

Mobile phones will be taxed at the standard rate, except for those valued over US\$ 500, which will continue to be taxed at the existing rate of 25%.

Zero ratings

Following goods are proposed to be zero rated.

- Goods, raw material, packing material and components etc. used in:
 - o Preparation suitable for infants put up for retail sale
 - o Stationary items
- Milk (Now proposed to be exempt other than sold under a brand name)
- Fat filled milk
- Local supply of commodities, raw material, components, parts and plants and machinery to registered exporters authorized under Export Facilitation Scheme, 2021.

Eighth Schedule

The rate of sales tax has been enhanced from 5% to 10% on the imported personal computers and Laptop computers, notebooks whether or not incorporating multimedia kit.

Medicaments as are classifiable under chapter 30 of the First Schedule to the Customs Act, 1969 are subject to sales tax at the rate of 1% at manufacturing or import stage only. The Bill has proposed to make them subject to standard rate of 18%.

Following goods have been made subject to normal sales tax at 18%:

- Liquified Petroleum Gas (LPG) – Currently taxed at the rate of 10%
- Supplies made from the retail outlets as are integrated with the FBR's system – Current rate: 15%
- Locally manufactured hybrid electric vehicles – Current rates: 8.5% upto 1800cc, 12.75% for 1801-2500cc

Stationary items like pencils, erasers, sharpeners, drawing book, ink etc. – Now proposed to be taxed under the Eighth Schedule at the rate of 10%.

Supply of plant and machinery erstwhile Tribal Areas are currently exempt from sales tax. These have now been proposed to be taxed at:

- (i) 6% till 30.06.2025
- (ii) 12% from 1.7.2025 till 30.06.2026

Supply of electricity to the erstwhile Tribal Areas is currently exempt from sales tax. It has now been proposed to be taxed at:

- (i) 6% till 30.06.2025
- (ii) 12% from 1.7.2025 till 30.06.2026

Following goods are currently exempt from sales tax. It has been proposed to charge sales tax at the rate of 10% on these goods.

- Tractors
- Oil cake and other solid residues
- Local supply of vermicillies, sheer mal, bun and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.
- Newsprint and books but excluding brochures. Leaflets, directories.
- Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal, and canola seed meal

Exemptions and withdrawals thereof

Following goods are exempt from sales tax. These exemptions have been proposed to be withdrawn:

Import and local supplies of:

- Edible Vegetable (Imported from Afghanistan) including roots and tubers (except where potato and onions) whether fresh, frozen or otherwise preserved (for e.g. in cold storage) but excluding those bottled or canned.
- Fruits imported from Afghanistan
- Newsprint and books
- Stationary items like pencils, erasers, sharpeners, drawing book, ink etc. – Now proposed to be taxed under the Eighth Schedule at the rate of 10%
- Certain surgical instruments used in various treatments and surgeries
- Diagnostic kits and equipment
- Supply of plant and machinery erstwhile Tribal Areas. These have now been proposed to be taxed at 6% till 30.06.2025 and 12% from 1.7.2025 till 30.06.2026
- Supply of electricity to the erstwhile Tribal Areas. It has now been proposed to be taxed at 6% till 30.06.2025 and 12% from 1.7.2025 till 30.06.2026
- Goods supplied to charitable hospitals of 50 beds or more
- Oil cake and other solid residues
- Tractor
- Machinery and equipment as listed in Serial No 32 of the Table of Part I of the 5th Schedule to the Custom Act 1969
- Goods imported by charitable hospitals

Local supplies of:

- Vermicillies, sheermal, bun, and rusks
- Poultry feed, cattle feed, sunflower seed meal, rape seed meal, and canola seed meal

New Exemptions

- Milk excluding that sold under a brand name
- Iron and steel scrap

Default Surcharge

The rate of default surcharge will be aligned with the SBP's policy rate of KIBOR plus 3%.

Withholding sales tax

The rate of withholding tax has been increased from 75% to 80% of the amount of sales tax on lead batteries.

Further, Registered persons are now required to withhold 80% of the sales tax in the following cases:

- Persons supplying any kind of gypsum under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000) or limestone flux under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000)
- Persons supplying any kind of waste of paper and paper board (Respective headings)
- Persons supplying any kind of plastic waste (Respective headings)
- Persons supplying crush stone and silica

Supplies made by an Active Taxpayer as defined in the Sales Tax Act, 1990 to another registered person are not subject to withholding tax currently. The Bill has proposed that the withholding tax in this case shall remain applicable in the following cases:

- Registered person as recipient of advertising services
- Registered person manufacturing lead batteries and purchasing lead and other related items
- Registered person making payment against the supply of any kind of gypsum under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000) or limestone flux under chapter 25 (PCT headings 2520.1010, 2520.1020, 2521.0000)
- Registered person making payment against the supply of any kind of waste of paper and paper board (Respective headings)
- Registered person making payment against the supply of any kind of plastic waste (Respective headings)
- Registered person making payment against the supply of crush stone and silica

Assessment of tax, Tax Audit, Recovery of Tax

The Bill has proposed to revamp the provisions dealing with the tax assessment, audit and recovery of tax. These proposed provisions aim to tighten the tax assessment and recovery process, ensure compliance, and address tax evasion and fraud comprehensively. The proposed mechanism is as follows:

• Section 11E. Assessment and Recovery of Tax

- If any tax has not been levied, has been short levied, or a refund was erroneously issued, an Inland Revenue officer (Assistant Commissioner or above) can issue a show cause notice to the taxpayer. The officer can then pass an order to recover the unpaid tax, inadmissible input tax credit, or undue refund. Penalties and default surcharges will also be imposed according to sections 33 and 34.
- The officer may disallow input tax if the taxpayer fails to provide a receipt, invoice, or other evidence of the transaction.

- If tax was not levied, it will be recovered as a tax fraction of the value of the supply.

- **Section 11G. Limitation for Assessment**

- Show cause notices under sections 11D to 11F must be issued within five years from the end of the financial year in which the relevant date falls.
- Orders under sections 11D, 11E, and 11F must be made within 120 days of the show cause notice issuance, extendable by up to 90 days by the Commissioner for valid reasons. Adjournment periods due to stay orders or Alternative Dispute Resolution proceedings, or taxpayer adjournments (up to 60 days), are excluded from this period.
- The relevant date is defined as the time of tax or charge payment, time of payment for goods or services with withheld tax, or the date of an erroneous refund.

- **Section 11F. Failure to Withhold Sales Tax**

If a person required to withhold sales tax fails to do so, or having withheld it fails to deposit it, an Inland Revenue officer (Assistant Commissioner or above) will issue a show cause notice. An order will then be passed to recover the amount in default, along with penalties and default surcharges under sections 33 and 34.

- **Section 11D. Best Judgment Assessment**

If a person fails to file a sales tax return or produce required documents, an Inland Revenue officer (Assistant Commissioner or above) can, after a show cause notice, assess the tax payable or refund due based on available information and best judgment. Penalties and default surcharges will be charged.

Input tax may be disallowed if the taxpayer fails to provide the necessary invoices or evidence.

If the taxpayer files the return and pays the due tax, surcharge, and penalty after a best judgment assessment, the show cause notice and assessment order will abate.

If the FBR sets conditions for determining minimum tax liability for non-filers, the officer will determine the liability accordingly.

- **Section 11B. Limitation for Issuing Orders**

The provisions of section 124 of the Income Tax Ordinance, 2001, will apply for issuing assessment orders or any other orders in consequence of or to give effect to decisions made by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court.

- **Section 25 and 25A – Audit and Investigative audit**

The Bill has also revamped the tax audit mechanism and also empowered the officers not below the rank of Assistant Commissioner to conduct investigative audit in case of suspicion of tax fraud.

- **Section 26. Return**

An Inland Revenue officer can issue a written notice requiring a person who has not filed a required tax return for a specific period to do so within 15 days or a specified period. This notice must be issued within 15 years in cases of tax fraud and within five years for other cases.

Tax Fraud

Provisions related to tax fraud will be streamlined and strengthened. The term "Tax fraud" has been redefined to include intentional evasion of legally due tax or obtaining undue refunds by submitting false returns, statements, or documents, or withholding correct information. This includes the suppression of taxable sales or receipts, false claims of input tax credit, making taxable supplies without issuing tax invoices in violation of tax laws, and issuing tax invoices without actual supply of goods to claim inadmissible input tax credits or refunds. It also covers evasion by obtaining undue input tax credits or refunds through other means, failing to deposit collected tax within three months from the due date, falsifying financial records or producing fake accounts to evade tax, tampering with or destroying required documents, and dealing with goods liable for confiscation under tax laws. These acts are presumed intentional unless proven otherwise by the accused.

It has also been proposed to impose following penalties:

- The person who commits, causes to commit or attempt to commit the tax fraud shall pay a penalty of twenty five thousand rupees or one hundred percent of the amount of tax evaded or sought to be evaded, whichever is higher. He shall also be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is upto five hundred or million or above, and 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 be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is upto five hundred million or above and which may extend to ten years if the tax evaded or sought to be evaded is one billion and above, and with fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded”.
- The person who commits, causes to commit or attempt to commit the tax fraud shall pay a penalty of twenty five thousand rupees or one hundred percent of the amount of tax evaded or sought to be evaded, whichever is higher. He shall also be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is upto five hundred million and above, and 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 be liable, upon conviction by a Special Judge to imprisonment for a term which may extend to five years if the tax evaded or sought to be evaded is upto five hundred million and above and which may extend to ten years if the tax evaded or sought to be evaded is one billion and above, and with fine which may extend to an amount equal to the amount of tax evaded or sought to be evaded.

- 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 shall be liable to pay penalty of rupees one million or one percent of the total value of the sales suppressed, whichever is higher.
- The offences under the Sales Tax Act have been made subject to prosecution that may lead to imprisonment upto ten years.

Blacklisting

The process of declaring any person as “blacklisted” has been streamlined. The Commissioner is now required to pass an order of blacklisting before declaring any person as blacklisted for any tax fraud etc. The Chief Commissioner has been empowered to call for and examine the record of proceedings and modify the order of blacklisting, either of his own motion or on application made by the registered person, after making such inquiry as is necessary. This order will only be passed after proper opportunity of being heard. The Bill has proposed that the appeal against the order of blacklisting shall not be filed in the Tribunal.

Electronic invoices

The FBR is empowered to require any person or class of persons to integrate their electronic invoicing system with the Board’s Computerized System for real time reporting of sales in such mode and manner and from such date as may be specified therein.

Licensed integrator shall integrate electronic invoicing system of registered persons. The “licensed integrator” means any person licensed by the FBR to provide electronic invoicing system for integration of registered persons in the prescribed manner.

The business place of a person required to integrate its business for monitoring, tracking, reporting, recording of sale and production and similar business transactions with the system of FBR and who does not so integrate with the FBR, shall be liable to be sealed by an officer of Inland Revenue in the manner as may be prescribed.

Pecuniary Jurisdiction in Appeal

Consequent to the introduction of the pecuniary jurisdiction of appeals vide the Tax Amendment Act 2024, the Bill has proposed to extend the deadline of the transfer the pending cases before the Commissioner (Appeals) to the Tribunal from June 16, 2024 to September 16, 2024.

The Bill has also proposed that the period of limitation for appeal filing shall continue to apply where any decision of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the Tax Laws (Amendment) Act, 2024.

Federal Excise Duty

- 5% FED will be imposed on commercial properties and the first sale of residential properties.
- The rate of FED on cement is set to increase from Rs. 2 per kg to Rs. 3 per kg.
- An FED of Rs. 15 per kg is proposed for the supply of sugar to manufacturers.
- FED of Rs. 44,000 is proposed on acetate tow.
- FED of Rs. 1,200 per kg will be imposed on nicotine pouches, enhancement of the FED on e-liquids, rate of FED on filter rods will be raised from Rs. 1,500 per kg to Rs. 80,000 per kg. Authorities will be empowered to seal the business premises of retailers selling illicit cigarettes.
- Diplomats and diplomatic missions will be exempted from FED.
- Price Threshold for Local Cigarettes: The price threshold for locally manufactured cigarettes will be increased from Rs. 9,000 to Rs. 12,500.

Custom Duty

Revenue-Generating Measures

- The bill proposes to revoke the custom duty exemption on the import of luxury electric cars.
- The exemption on custom duty for the import of Hybrid electric vehicles has been abolished.
- Custom duties on steel and paper products have been proposed to be increased.
- Import duties on glass products have also been proposed.

Relief Measures

To encourage the manufacturing of solar panels, custom duties on the import of raw materials will be reduced for registered manufacturers.

Petroleum Levy

Following are the proposed minimum and maximum revised petroleum levy:

Product	Minimum Rate (Rs. per unit)	Maximum Rate (Rs. per unit)
High Speed Diesel	60 / liter	80 / liter
Motor Gasoline	60 / liter	80 / liter
Superior Kerosene Oil	50 / liter	50 / liter
Light Diesel	50 / liter	75 / liter
High Octane blending component	50 / liter	75 / liter
E-10 Gasoline	50 / liter	75 / liter
Liquified Petroleum Gas (LPG) – Locally Produced	30,000 / MT	30,000 / MT

Disclaimer

In this document, we have summarized the significant proposals made in the Finance Bill regarding direct and indirect tax laws. The information contained in this publication is provided for general information purposes only. It is not intended to be relied upon by anyone without proper professional advice. Users are advised to consult the relevant laws and seek appropriate professional guidance before making any financial or legal decisions based on this information.



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