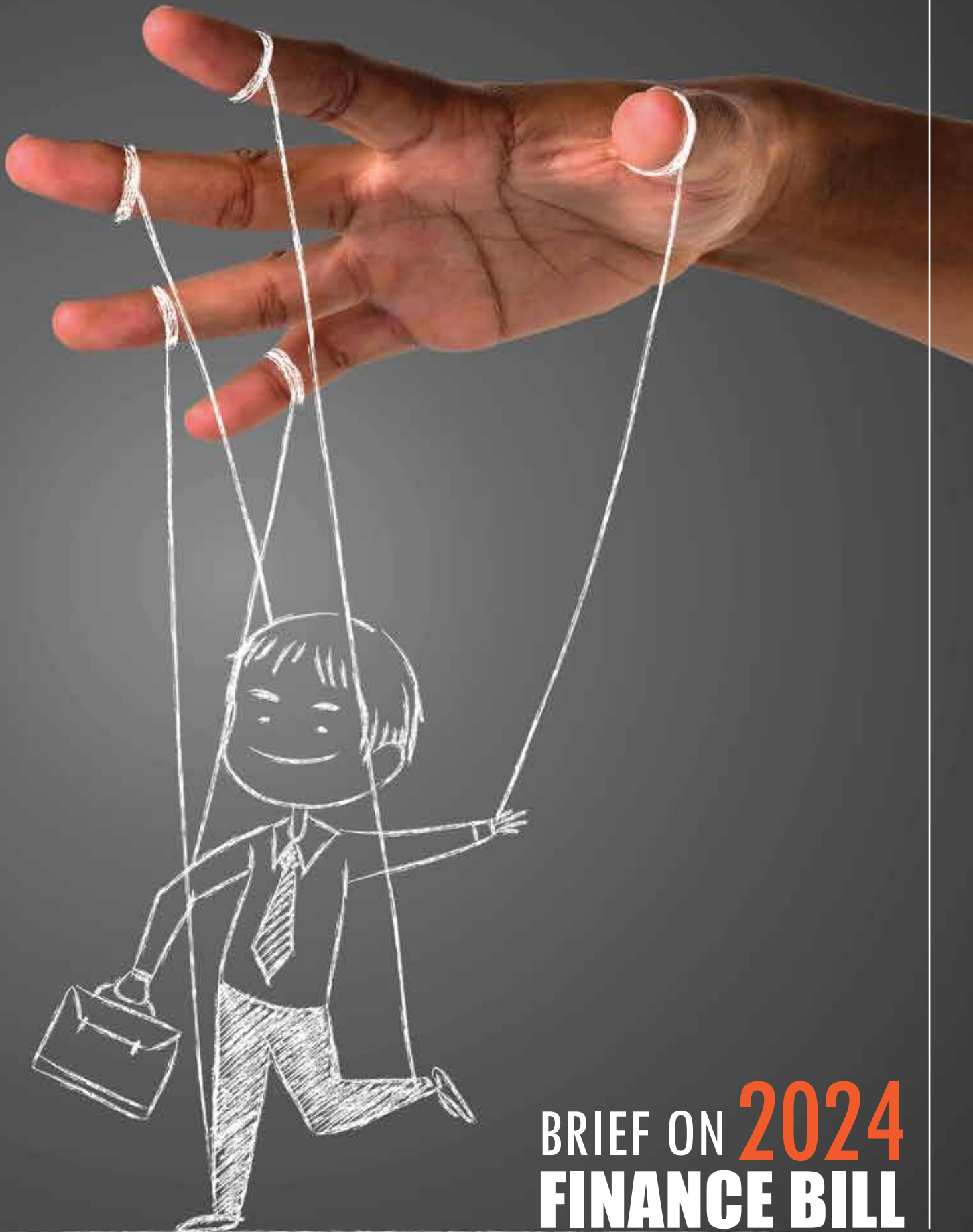




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BRIEF ON **2024**
FINANCE BILL

PREFACE

This document presents a brief overview of the major changes proposed through the Finance Bill, 2024. It specifically highlights the modifications pertaining to Income Tax, Sales Tax and Federal Excise Duty Laws. Subject to approval by National Assembly and Presidential assent, the amendments to the fiscal laws introduced by the Finance Bill, 2024 will come into effect from 01 July 2024, unless stated otherwise.

It is important to highlight that this document not only presents our understanding and interpretation of the legislation but also represents a comprehensive analysis of the implications derived from them. When considering their application to any specific case, it is highly recommended to refer to and thoroughly examine the original text of the relevant statutes before making any final decision or implementing any measures. By consulting the original statute(s), one can acquire a more precise understanding for a particular case and take appropriate actions that align with the intended framework established by the legislation.

The brief is also accessible on our official website www.mavenminds.com.pk/

13th June 2024

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INCOME TAX ORDINANCE, 2001

INCREASE IN TAX RATES FOR SALARIED INDIVIDUALS [DIVISION I, PART I OF THE FIRST SCHEDULE]

The Finance Bill 2024 proposes a significant increase in the tax rates applicable to salaried individuals. These changes are aimed at increasing tax revenue by implementing a more progressive tax system.

The tax-exempt threshold has been maintained at an annual income of Rs. 600,000. Individuals earning up to this amount will continue to be exempt from income tax.

For incomes exceeding Rs. 600,000, the Finance Bill 2024 proposes five taxable slabs with progressive tax rates as follow:

TAXABLE INCOME	PROPOSED TAX RATES
Where taxable income does not exceed Rs. 600,000/-	0%
Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
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
Where taxable income exceeds Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

The impact of proposed tax rates on various salary income brackets are as follows:

MONTHLY INCOME	ANNUAL INCOME	EXISTING TAX	PROPOSED TAX	INCREASE / (DECREASE)	% CHANGE
AMOUNT IN RS.					
50,000	600,000	-	-	-	0.00%
60,000	720,000	3,000	6,000	3,000	100.00%
80,000	960,000	9,000	18,000	9,000	100.00%
90,000	1,080,000	12,000	24,000	12,000	100.00%
100,000	1,200,000	15,000	30,000	15,000	100.00%
150,000	1,800,000	90,000	120,000	30,000	33.33%
200,000	2,400,000	165,000	230,000	65,000	39.39%
250,000	3,000,000	300,000	380,000	80,000	26.67%
300,000	3,600,000	435,000	550,000	115,000	26.44%
400,000	4,800,000	765,000	945,000	180,000	23.53%
500,000	6,000,000	1,095,000	1,365,000	270,000	24.66%
600,000	7,200,000	1,515,000	1,785,000	270,000	17.82%
700,000	8,400,000	1,935,000	2,205,000	270,000	13.95%
800,000	9,600,000	2,355,000	2,625,000	270,000	11.46%
900,000	10,800,000	2,775,000	3,045,000	270,000	9.73%
1,000,000	12,000,000	3,195,000	3,465,000	270,000	8.45%

INCREASE IN TAX RATES FOR NON-SALARIED INDIVIDUALS / AOPS [DIVISION I, PART I OF THE FIRST SCHEDULE]

The Finance Bill 2024 proposes significant revisions to the tax rates applicable to non-salaried individuals and Associations of Persons (AOPs). These changes aim to increase tax revenue by implementing a more progressive tax system.

The tax-exempt threshold remains unchanged at an annual income of Rs. 600,000. Non-salaried individuals and AOPs earning up to this amount will continue to be exempt from income tax.

For incomes exceeding Rs. 600,000, the Finance Bill 2024 proposes a revised set of taxable slabs with progressive tax rates. The new slabs introduce higher rates for higher income brackets, ensuring that wealthier taxpayers contribute a greater share of their income in taxes.

The proposed tax rates and their impact on various income brackets are as follows:

TAXABLE INCOME	PROPOSED TAX RATES
Where taxable income does not exceed Rs. 600,000/-	0%
Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 + 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
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
Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

The impact of proposed tax rates on various income brackets are as follows:

MONTHLY INCOME	ANNUAL INCOME	EXISTING TAX	PROPOSED TAX	INCREASE / (DECREASE)	INCREASE / (DECREASE) %
50,000	600,000	-	-	-	0.00%
60,000	720,000	9,000	18,000	9,000	100.00%
80,000	960,000	39,000	54,000	15,000	38.46%
90,000	1,080,000	57,000	72,000	15,000	26.32%
100,000	1,200,000	75,000	90,000	15,000	20.00%
150,000	1,800,000	195,000	230,000	35,000	17.95%
200,000	2,400,000	315,000	410,000	95,000	30.16%
250,000	3,000,000	465,000	590,000	125,000	26.88%
300,000	3,600,000	645,000	810,000	165,000	25.58%
400,000	4,800,000	1,045,000	1,290,000	245,000	23.44%
500,000	6,000,000	1,465,000	1,790,000	325,000	22.18%
600,000	7,200,000	1,885,000	2,330,000	445,000	23.61%
700,000	8,400,000	2,305,000	2,870,000	565,000	24.51%
800,000	9,600,000	2,725,000	3,410,000	685,000	25.14%
900,000	10,800,000	3,145,000	3,950,000	805,000	25.60%
1,000,000	12,000,000	3,565,000	4,490,000	925,000	25.95%

CHANGE IN TAX REGIME FOR EXPORT OF GOODS FROM FINAL TAX TO MINIMUM TAX [SECTION 154]

Under the existing tax laws, persons deriving income from the export of goods are subject to a tax deduction at the rate of 1% of export proceeds. This tax is treated as a final tax, thereby fulfilling the taxpayer's liability on the income generated from exports.

The Finance Bill 2024 proposes a critical amendment to the treatment of the existing 1% tax deduction on export proceeds. Instead of serving as a final tax, this 1% deduction will now be treated as a minimum tax. This means that while it serves as a baseline tax, it does not absolve the taxpayer from additional tax liabilities that may arise from the overall income computation under regular tax assessments.

In addition to the minimum tax, the Finance Bill 2024 proposes an additional 1% tax deduction on export proceeds. This additional deduction is to be treated as an advance tax, which will be adjustable against the tax liability of the taxpayer.

The shift from a final tax to a minimum tax, supplemented by an additional 1% advance tax requirement, will necessitate more rigorous tax compliance and documentation by exporters.

CHANGES IN CAPITAL GAINS TAX ON SALE OF SECURITIES [SECTION 37A]

Under the existing tax laws, capital gains on the sale of securities are taxed based on the holding period at following rates:

HOLDING PERIOD	EXISTING TAX RATES
Where the holding period does not exceed one year	15%
Where the holding period exceeds one year but does not exceed two years	12.5%
Where the holding period exceeds two years but does not exceed three years	10%
Where the holding period exceeds three years but does not exceed four years	7.5%
Where the holding period exceeds four years but does not exceed five years	5%
Where the holding period exceeds five years but does not exceed six years	2.5%
Where the holding period exceeds six years	0%

The maximum tax rate is 15% for short-term holdings, with no tax applied if the holding period exceeds six years. This progressive tax structure incentivizes long-term investments in securities.

The Finance Bill 2024 proposes the following tax rates for capital gain on securities:

15% FLAT TAX RATE FOR PERSONS APPEARING IN ACTIVE TAXPAYER'S LIST

15% flat tax rate on gain on disposal of securities acquired on or after 01 July 2024 for persons appearing in Active Taxpayer's list on the date of acquisition and the date of disposals.

TAX RATES FOR PERSONS NOT APPEARING IN ACTIVE TAXPAYER'S LIST

Gain on disposal of securities by persons not appearing on Active Taxpayer's list on the date of acquisition and the date of disposals shall be taxable at the progressive slab rate specified in Division I for individuals and AOP (this rate shall not be less than 15% in any case) and at corporate tax rate specified in Division II for companies.

The proposed flat tax rate may impact long-term investors who previously benefited from lower or zero tax rates on securities held for extended periods. While this could potentially discourage long-term investments, the consistent tax treatment simplifies the investment decision-making process.

WITHDRAWAL OF ENHANCED COLLECTION OF TAX ON SALE OF LISTED SECURITIES FOR NON-ACTIVE TAXPAYER [TENTH SCHEDULE]

Under the current law, persons not appearing on the Active Taxpayers' List (ATL) are subject to enhanced rates of withholding tax under the Tenth Schedule. This includes the sale of listed securities, where non-ATL persons face higher tax rates on capital gains to encourage tax compliance and broaden the tax base.

The Finance Bill 2024 proposes to exclude capital gains on securities covered under Section 37A, including listed shares, from the Tenth Schedule.

CHANGES IN CAPITAL GAINS TAX ON SALE OF IMMOVABLE PROPERTY [SECTION 37]

Under the existing tax laws, capital gains on the sale of immovable property are taxed based on the category of property and the holding period at following rates:

HOLDING PERIOD	EXISTING TAX RATES		
	OPEN PLOTS	CONSTRUCTED PROPERTY	FLATS
Where the holding period does not exceed one year	15%	15%	15%
Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
Where the holding period exceeds two years but does not exceed three years	10%	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 five years but does not exceed six years	2.5%	-	-
Where the holding period exceeds six years	-	-	-

The Finance Bill 2024 proposes the following taxation for capital gain on securities:

15% FLAT TAX RATE FOR PERSONS APPEARING ON ACTIVE TAXPAYERS' LIST

15% flat tax rate on gain on immovable properties acquired on or after 01 July 2024 for persons appearing in Active Taxpayer's list on the date of disposal of the property.

TAX RATES FOR PERSONS NOT APPEARING ON ACTIVE TAXPAYERS' LIST

Gain on disposal of property by persons not appearing on Active Taxpayer's list on the date of disposal of property shall be taxable at the progressive slab rate specified in Division I for individuals and AOP (this rate shall not be less than 15% in any case) and at corporate tax rate specified in Division II for companies.

INTRODUCTION OF TAX RATES FOR LATE FILERS [SECTION 100BA AND 10TH SCHEDULE]

Under the current tax regime, non-filers are subject to withholding at higher tax rates as a means to increase their cost of doing business and to compel them to file their tax returns. This strategy serves to broaden the tax base and encourage compliance.

The Finance Bill 2024 proposes a new category of taxpayers termed as "late filers" and specifies a new withholding tax rate structure for them. This category is designed to address persons who file their tax returns after the due date, primarily to benefit from lower tax rates applicable to filers, thereby avoiding the higher tax rates imposed on non-filers.

Late filers will be subjected to withholding tax rate that is higher than that for regular filers but lower than that for non-filers.

PROGRESSIVE WITHHOLDING TAX RATES FOR PURCHASE AND SALE/TRANSFER OF IMMOVABLE PROPERTIES [SECTION 236K AND 236C]

Under the existing law,

- The withholding income tax on the purchase of immovable property is 3% for filers and 10.5% for non-filers; and
- The withholding income tax on the sale or transfer of immovable property is 3% for filers and 6% for non-filers.

These rates are flat, meaning they do not vary based on the value of the property.

The Finance Bill 2024 proposes significant changes to the withholding tax rates on the purchase and sale / transfer of immovable properties. These changes introduce a progressive tax structure based on value of the property and categorize taxpayers into three distinct groups: filers, late filers, and non-filers as follow:

FAIR MARKET VALUE OF IMMOVABLE PROPERTY	PURCHASE OF PROPERTY			SALE/TRANSFER OF PROPERTY		
	FILER	LATE FILER	NON-FILER	FILER	LATE FILER	NON-FILER
Where the fair market value does not exceed Rs. 50 Million	3%	6%	12%	3%	6%	10%
Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 Million	3.5%	7%	16%	3.5%	7%	
Where the fair market value exceeds Rs. 100 million	4%	8%	20%	4%	8%	

By introducing distinct rates for filers and late filers, the Finance Bill 2024 incentivizes timely filing of tax returns. Late filers will face higher rates than filers, encouraging them to comply with filing deadlines to avoid additional tax liabilities.

Non-filers will continue to be subjected to the highest tax rates, reinforcing the government's strategy to compel tax compliance and broaden the tax base. The increased cost for non-filers serves as a significant deterrent against remaining outside the tax net.

EXPANSION OF WITHHOLDING TAX ON SUPPLY CHAIN AND RATE ENHANCEMENT FOR NON-FILER SUPPLY CHAIN MEMBER [SECTION 236G AND 236H]

Under the existing tax laws, advance tax is collected on sales to dealers, distributors, wholesalers, and retailers in certain specified sectors. The current rates are:

- **Dealers, Distributors, Wholesalers:** 0.1% for filers and 0.2% for non-filers (Section 236G)
- **Retailers:** 0.5% for filers and 1% for non-filers (Section 236H)

The Finance Bill 2024 proposes to expand the scope of advance tax collection to include all sectors of the economy. This means that advance tax will now be collected on sales to all distributors, wholesalers, dealers, and retailers, not just those in specified sectors.

Secondly, the rates for non-filer supply chain members are being significantly enhanced to encourage tax compliance and broaden the tax net. The proposed rates are:

- **Dealers, Distributors, Wholesalers:** Increased from 0.2% to 2%
- **Retailers:** Increased from 1% to 2.5%

A significant concern with this proposal is its potential to create inflation. Since a majority of traders are unregistered and classified as non-filers, they will face higher tax rates. These traders are likely to pass on the increased tax costs to consumers in the form of higher prices, leading to an inflationary effect.

CONVERSION OF WITHHOLDING TAX EXEMPTION CERTIFICATES TO REDUCED RATE CERTIFICATES [SECTION 152, 153 AND 159]

Under the current tax laws, taxpayers can obtain an exemption certificate to avoid withholding tax on the supply of goods and other specified transactions. This exemption allows eligible taxpayers to conduct transactions without the immediate deduction of withholding tax, thereby improving cash flow and avoiding creating excessive tax refunds.

The Finance Bill 2024 proposes to convert the facility of exemption from withholding tax into a lower / reduced rate certificate on the supply of goods and certain other transactions. We understand that 0% certificate will be covered under lower / reduced rate.

INCREASE OF DEFAULT SURCHARGE RATE [SECTION 205]

Under the current law, the default surcharge rate is 12% per annum. This rate is significantly lower than the prevailing interbank rate, which currently stands at 20.5%.

The Finance Bill 2024 proposes to increase the default surcharge rate to the Karachi Interbank Offered Rate (KIBOR) plus 3% per annum. A higher surcharge rate will serve as a deterrent against delayed payments and encourage taxpayers to settle their dues promptly to avoid additional financial burdens.

BAR ON TRAVEL OUTSIDE PAKISTAN FOR NON-FILERS [SECTION 114B]

Under the current law, individuals who fail to file their income tax returns even after receiving a notice, and whose names are included in the income tax general order, face severe consequences. These include the blocking of their SIM cards and the disconnection of their utility connections, aimed at enforcing tax compliance.

The Finance Bill 2024 proposes an additional measure to enforce compliance among non-filers. The bill suggests barring such individuals from exiting Pakistan. However, this measure includes exceptions for certain categories of individuals, such as minors, students, overseas Pakistanis holding National Identity Cards for Overseas Pakistanis (NICOP), and other classes of persons as notified by the Federal Board of Revenue (FBR).

HIGHER WITHHOLDING TAX ON REGISTRATION OF VEHICLES [SECTION 231B]

Currently, advance tax is collected at the time of registration, transfer, and sale of private motor vehicles at:

- **Fixed Rate:** For motor vehicles with an engine capacity of up to 2,000 cc, advance tax is collected at a fixed rate.
- **Value-Based Rate:** For motor vehicles with an engine capacity exceeding 2,000 cc, advance tax is collected based on the value of the vehicle.

The Finance Bill 2024 proposes to standardize the collection of advance tax based on the value of the motor vehicle.

Comparison of the current and proposed tax rates is as follow:

ENGINE CAPACITY	EXISTING TAX	PROPOSED TAX
Upto 850 cc	Rs. 10,000	0.5% of the value
851cc to 1000cc	Rs. 20,000	1% of the value
1001cc to 1300cc	Rs. 25,000	1.5% of the value
1301cc to 1600cc	Rs. 50,000	2% of the value
1601cc to 1800cc	Rs. 150,000	3% of the value
1801cc to 2000cc	Rs. 200,000	5% of the value
2001cc to 2500cc	6% of the value	7% of the value
2501cc to 3000cc	8% of the value	9% of the value
Above 3000cc	10% of the value	12% of the value

CHANGES TO QUARTERLY ADVANCE TAX PROVISIONS [SECTION 147]

Under the existing provisions, if an Association of Persons (AOP) or a Company fails to provide turnover for a quarter, or if the turnover is not known, they must consider the turnover for the purpose of quarterly advance tax payments as one-fourth of 110% of the turnover of the latest tax year for which a return has been filed.

Secondly, taxpayers required to make advance tax payments per the formula prescribed in Section 147 of the Ordinance can estimate, at any time before the last installment is due, that the tax payable is likely to be less than the amount they are required to pay. They may then furnish an estimate to the Commissioner along with reasons for the decline, documentary evidence of estimated expenses or deductions, and the computation of estimated taxable income.

The Finance Bill 2024 proposes to enhance the rate used for the computation of advance tax from 110% to 120% of the turnover of the latest tax year for which a return has been filed.

The Finance Bill 2024 proposes additional requirements for taxpayers who file a lower estimate of their tax payable to discharge their advance tax liability. These requirements include:

- Providing turnover for the completed quarters of the relevant tax year.
- Estimating turnover for the remaining quarters.
- Supporting evidence of expenses or deductions in computing income.
- Evidence of tax payments and tax credits.
- Computation of estimated taxable income.

The Finance Bill 2024 also grants the Commissioner the power to reject the estimate where the Commissioner is not satisfied with the documentary evidence provided or if the estimate is not accompanied by the required details.

WITHDRAWAL OF TAX REDUCTION FOR FULL-TIME TEACHERS AND RESEARCHERS [CLAUSE (2), PART III OF 2ND SCHEDULE]

Under the current law, full-time teachers or researchers employed in non-profit educational institutions, including government research institutions recognized by the Higher Education Commission (HEC), are eligible for a 25% reduction in tax payable on their income from salary.

The Finance Bill 2024 proposes to withdraw this 25% tax reduction. As a result, full-time teachers and researchers employed in qualifying institutions will no longer receive this tax benefit.

PROPOSED AUDIT REQUIREMENT FOR AOPS HAVING TURNOVER OF RS. 300M OR MORE [SECTION 92]

Under the existing tax law, an Association of Persons (AOP) is liable to be taxed separately from its members. When a member of an AOP receives an amount from the income of the AOP that has already been taxed, this income is exempt from tax in the hands of the members. This provision ensures that income is not taxed twice, promoting fairness in the tax system.

The Finance Bill 2024 proposes a condition for the exemption of taxed income in the hands of members if the AOP's turnover is Rs. 300 million or above during the tax year or any of the preceding tax years.

Under this proposal, the exemption from tax for the members will only be available if the AOP gets its financial statements audited by a firm of Chartered Accountants or a firm of Cost and Management Accountants. The audited financial statements must be filed along with the AOP's return of income for that tax year.

AMENDMENT TO THE TIME OF ADVANCE TAX DEDUCTION ON PURCHASE OF SHARES [SECTION 37]

Under the existing provisions, a person acquiring shares of a company is required to deduct an advance adjustable tax at the rate of 10% of the fair market value of the shares. This tax must be deducted from the gross amount paid and paid to the Commissioner by way of credit to the Federal Government within 15 days of the payment for acquiring the shares.

The Finance Bill 2024 proposes an amendment to this provision. The person acquiring shares will now be required to deduct the advance tax at the time of payment made or at the time of registration of the shares by the Securities and Exchange Commission of Pakistan (SECP) or the State Bank of Pakistan (SBP), whichever is earlier. This amendment addresses situations where payments for shares may be delayed beyond the registration of shares.

INCREASE IN TAX RATES ON DIVIDENDS RECEIVED FROM MUTUAL FUNDS [SECTION 5 AND 150]

In case of dividend from mutual funds deriving 50% or more of their income from profit on debt, the Finance Bill 2024 proposes increase the tax rate and withholding to 25% as against the existing rate of 15%.

INCREASE IN ADVANCE TAX ON PROFIT ON DEBT FOR NON-ACTIVE TAXPAYER [SECTION 151]

The Finance Bill 2024 proposes to increase the withholding tax rate on payment of profit on debt for persons not appearing in ATL from existing 30% to 35%.

INCREASE IN WITHHOLDING TAX RATES FOR TOLL MANUFACTURING

The Finance Bill 2024 proposes to increase the rate of withholding tax on payments on account of toll manufacturing. The comparative is summarized in the below table:

TOLL MANUFACTURER	EXISTING TAX RATE	PROPOSED TAX RATE
Company	5%	9%
Other than company	5.5%	11%

INCREASE IN WITHHOLDING TAX RATE ON CIGARETTE DISTRIBUTORS [SECTION 153 AND CLAUSE (24A), PART II OF 2ND SCHEDULE]

Currently, 1% rate is applicable for withholding of tax on gross amount of payment made to distributors of cigarettes. The Finance Bill 2024 proposes to enhance this rate to 2.5%.

SIGNIFICANT INCREASE IN RATE OF ADVANCE TAX ON TELEPHONE AND INTERNET BILLS FOR NON-ACTIVE TAXPAYER

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

The Finance Bill 2024 proposes to increase the withholding tax rate in case of persons appearing in the abovementioned general order, from existing 15% to 75% of the amount of the bill / sale price of internet prepaid card / prepaid telephone card / sale of units to any electronic medium.

SIGNIFICANT AMENDMENTS

THE SALES TAX ACT, 1990 [ST ACT]

ASSOCIATES (ASSOCIATED PERSONS)

[SECTION 2(3)]

The proposed amendment seeks to replace the existing definition with a reference to sub-section (1) of section 85 of the Income Tax Ordinance, 2001. The proposed amendment aims to align the definition of "associates (associated persons)" under sales tax law with that defined in the Income Tax Ordinance, 2001. This change seeks to standardize definitions, potentially simplifying compliance and interpretation for taxpayers dealing with both income tax and sales tax.

While the definitions under both statutes are broadly similar in nature, the Income Tax Ordinance's definition of "associates" additionally covers the "concept of sufficient influence" and "transactions with residents of zero taxation regime". This broader scope under sales tax law added through the proposed Finance Bill, 2024 could impact scenarios where supplies are made without consideration or at consideration lower than market rates, necessitating valuation based on open market prices for the purpose of charging sales tax.

Further, an anomaly arises with this alignment as the proposed amendment restricts the definition to section 85(1) of the Income Tax Ordinance, potentially excluding certain categories addressed in other subsections of the ST Act currently governing the term "associates". This issue is expected to be resolved during the passage of the Finance Act to ensure a more comprehensive alignment between income tax and sales tax regulations.

BOARD

[SECTION 2(4)]

The proposed amendment aligns the definition of "Board" in the ST Act with the broader definition provided in the Income Tax Ordinance, 2001. This broader definition encompasses the historical establishment of the Central Board of Revenue under the Central Board of Revenue Act, 1924, and its transformation into the Federal Board of Revenue under the Federal Board of Revenue Act, 2007. By referencing the Central Board of Revenue's historical evolution, the amended definition acknowledges the institutional continuity and evolution of tax administration in Pakistan. This historical context provides a foundation for understanding the authority and jurisdiction vested in the Federal Board of Revenue today. Further, harmonizing the definition of "Board" across tax laws enhances administrative consistency and legal clarity, and reduces ambiguity.

INVESTIGATIVE AUDIT

[SECTION 2(14-A)]

The current clause (14A) regarding the definition of 'KIBOR' is suggested to be repositioned as clause (14B), while a fresh definition is set to occupy the place of clause 14A. The newly proposed clause (14A) delineates "investigative audit" as an audit carried out under Section 25AB of the ST Act. Notably, Section 25AB has been newly introduced via this Finance Bill, 2024, which we will discuss in detail in the subsequent parts of this document.

LICENSED INTEGRATOR

[SECTION 2(15-A)]

The Finance Bill, 2024 introduces the term "licensed integrator" as follows: "licensed integrator" means any person licensed by the Board to provide electronic invoicing system for integration of registered persons in the prescribed manner.

This amendment defines a "licensed integrator" as an individual or entity authorized by the Board to offer an electronic invoicing system that integrates registered persons according to specified regulatory guidelines. It aims to streamline invoicing processes and ensure compliance with standards. Monitoring its implementation will be crucial to assess its impact on operational efficiency and regulatory compliance in invoicing practices.

TAX FRAUD

[SECTION 2(37)]

The current definition of "tax fraud" under Section 2(37) of the ST Act, focuses on acts or omissions done knowingly, dishonestly, or fraudulently to understate tax liability or overstate entitlement to tax credit/refund. Key elements include making taxable supplies without registration, falsifying tax invoices, and intentionally avoiding tax obligations.

The proposed amendments to Section 2(37) of the ST Act significantly broaden the scope of "tax fraud" to encompass a wider range of intentional tax evasion practices. This represents a significant step towards combating tax evasion through a more comprehensive and stringent definition of "tax fraud." The activities/events that attract the charge of tax fraud as per the proposed amendments include:

1. Intentionally evading legally due tax or obtaining undue refunds through submission of false returns, statements, or documents.
2. Withholding of correct information or documents.
3. Suppression of sales or receipts that are taxable under the ST Act.
4. False claims for input tax credit that the taxpayer is not entitled to.
5. Making taxable supplies of goods without issuing any tax invoice.
6. Issuing tax invoices without actually supplying goods, leading to illegitimate claims for input tax credit or refunds.
7. Evading tax by claiming undue input tax credit or obtaining refunds through unauthorized means.
8. Collecting tax but failing to deposit it with the tax authorities in the prescribed manner beyond a period of three months from due date of payment of tax.
9. Falsifying financial records, producing fake accounts or documents, or providing false information to evade tax or claim inadmissible refund.
10. Intentionally tampering with or destroying material evidence or documents required under the ST Act.
11. Dealing with goods that are suspected to be liable for confiscation under the ST Act or the allied rules.

We understand that the expanded definition strengthens compliance requirements by targeting various forms of deliberate tax evasion. It provides tax authorities with broader grounds to investigate and prosecute fraudulent activities. The burden of proof now shifts to the accused taxpayer to demonstrate lack of intention, knowledge, or motive in committing fraudulent acts. This increases the responsibility on taxpayers to maintain accurate records and demonstrate compliance.

The comprehensive list of fraudulent practices and the strict liability approach (where intention is presumed unless proven otherwise) serve as strong deterrents against tax evasion. However, implementing and enforcing these amendments will require robust administrative mechanisms, including enhanced monitoring, data analytics, and collaboration across agencies to detect and deter fraudulent activities effectively.

SALES TAX ON ADVANCE PAYMENT - TIME OF SUPPLY

[SECTION 2(44)(A)]

The Finance Act, 2021 brought a significant change by removing the imposition of sales tax on advance payments, which was widely welcomed by industries. This change relieved financial pressures by allowing businesses to defer the payment of sales tax until the actual supply of goods, aligning tax liabilities more closely with revenue realization. Moreover, it streamlined administrative procedures, reducing compliance burdens and the likelihood of tax disputes and reconciliation related to advance payments.

However, the Finance Bill, 2024 reinstates the previous position prior to the Finance Act, 2021 by amending Section 2(44)(a) of the ST Act. This amendment introduces a provision where tax liability can arise upon receipt of payment by the supplier, alongside the existing criteria of delivery or availability of goods, whichever occurs earlier. Shifting the point of taxation to include receipt of payment may affect revenue collection patterns, potentially resulting in earlier recognition of tax revenues by the government depending on prevalent industry payment practices. While intended to enhance early-stage tax collection, we understand that it also poses challenges in terms of compliance and administration for taxpayers.

VALUE OF SUPPLY

[SECTION 2(46)]

The Finance Bill, 2024 proposes the following amendments to Section 2(46) of the ST Act:

- In sub-clause (d), the term "central excise duty" will be replaced with "federal excise duty." This amendment aims to update terminology to reflect current administrative practices and legal framework where excise duties fall under federal jurisdiction.
- The goods listed in the Third Schedule will now be explicitly subject to the valuation mechanism to be prescribed by the Board. This amendment seems to be clarificatory, as the Board is already authorized under the existing Section 2(46) of the ST Act to determine the value of any imported or local goods. The exercise of this power will be beneficial only if the fixed values set by the Board align with market realities. If the values set for Third Schedule items reflect prevailing market conditions, it could create a stable tax environment conducive to business planning and investment. However, if there is a misalignment between the fixed values and actual market prices, it could result in unintended consequences such as under- or over-taxation or distortions in market behavior.

SCOPE OF TAX

[SECTION 3(11)]

Section 3(11) of the ST Act empowers the Federal Board of Revenue (FBR) to mandate certain classes of persons to integrate their invoice-issuing machines with the Board's computerized system. This integration facilitates real-time reporting of sales. The section allows the FBR to prescribe the mode, manner, and effective date for such integration through a notification in the official Gazette.

The Finance Bill, 2024 proposes to omit Section 3(11) of the ST Act. This means the FBR would no longer have the authority to require integration of invoice-issuing machines with its computerized system for real-time sales reporting under Section 3 of the ST Act.

Further, we understand that the scope of tax generally refers to the fundamental aspects of tax liability, such as who is subject to tax, what transactions are taxable, and the rates at which tax is applied. It establishes the boundaries and reach of the tax law. However, procedural requirements, on the other hand, detail how the tax laws are implemented and enforced. These include compliance mechanisms, reporting requirements, documentation standards, and administrative processes. Section 3(11) of the ST Act, which mandates the integration of invoice-issuing machines for real-time sales reporting, falls under procedural requirements rather than the scope of tax. Therefore, we understand that the provision for the integration requirement was not appropriately placed in Section 3 – Scope of Tax; accordingly, its proposed omission seems appropriate.

LIMITATION FOR ISSUING ORDERS IN CERTAIN CASES

[SECTION 11-B]

The existing subsection 1 of Section 11B of the ST Act mandates that when an order from the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court necessitates issuing an assessment order to a registered person, the Commissioner or Officer of Inland Revenue must issue the order within one year from the end of the financial year in which the judicial/appeal order was served.

The existing subsection 2 of Section 11B of the ST Act deals with the cases where the Appellate Tribunal, High Court, or Supreme Court remands an assessment order (partially or wholly) and directs the Commissioner or Commissioner (Appeals) or an officer to issue a new assessment order, the new order must be issued within one year from the end of the

financial year in which the judicial/appeal order was served. This subsection also includes a proviso stating that the limitation period does not apply if an appeal or reference has been filed against the order of the Appellate Tribunal or High Court.

The proposed amendment replaces the aforesaid current provisions of Section 11B with a new clause stating that the provisions of Section 124 of the Income Tax Ordinance, 2001, will apply mutatis mutandis for issuing assessment orders or any other orders in consequence of or to give effect to any order made by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court.

By referring to Section 124 of the Income Tax Ordinance, 2001, we understand that the amendment aims to harmonize the procedures for issuing assessment orders in sales tax matters with those in the income tax domain by referring to Section 124 of the Income Tax Ordinance, 2001. Section 124 of the Income Tax Ordinance deals with the time limits for giving effect to appellate orders, potentially offering a more streamlined and unified approach with additional aspects. The reference to Section 124 introduces a two-year limit for issuing assessment orders as per Section 124(1), unless the order is set aside and remanded, in which case a one-year limit applies as per Section 124(2). This change extends the time frame from one year to two years in certain cases, which could provide tax authorities with more flexibility but may also delay finality for taxpayers.

TAX ASSESSMENT

[SECTION 11]

The Finance Bill, 2024 proposes to omit Section 11 of the ST Act, which deals with the assessment and recovery of tax. In its place, new Sections 11D, 11E, 11F, and 11G have been introduced. We understand that the proposed changes provide a clearer and more structured approach by introducing distinct sections for different scenarios.

SECTION 11-D: BEST JUDGMENT ASSESSMENT

Under this newly introduced Section, Inland Revenue officers (not below the rank of Assistant Commissioner) can determine the tax liabilities or potential refunds based on available information if a taxpayer fails to submit a return or provide necessary documentation. They are also empowered to disallow or reduce input tax claims if the taxpayer fails to furnish invoices or supporting records. Additionally, this Section enables officers to levy penalties and default surcharges in the context of such best judgment assessments.

However, if a best judgment assessment is conducted due to non-filing of the return and the taxpayer subsequently files the return, pays the outstanding tax amount, including default surcharges and penalties, any pending notices to show cause and assessment orders shall abate. This provision mirrors the concept of best judgment assessment already established in the Income Tax Ordinance, 2001.

SECTION 11-E: ASSESSMENT AND RECOVERY OF TAX NOT LEVIED OR SHORT LEVIED OR ERRONEOUSLY REFUNDED

Similar to the existing provisions of the ST Act, it provides for the assessment and recovery of taxes not levied, short levied, inadmissible input tax credits, or refunds, with penalties and default surcharge.

SECTION 11-F: FAILURE TO WITHHOLD SALES TAX

Specifies the procedure for dealing with failure to withhold or deposit sales tax, similar to existing provisions of the ST Act but more explicitly categorized.

SECTION 11-G: LIMITATION FOR ASSESSMENT

Consolidates the limitation period and timelines for issuing show cause notices and making assessment orders, broadly similar to existing provisions of the ST Act but under a new section.

DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION [SECTION 21]

The proposed changes in the Finance Bill, 2024 seek to amend Section 21 of the ST Act as follows:

In Section 21(2), the word "blacklist" is proposed to be replaced with "issue an order of blacklisting". This change appears to clarify the procedural action as an order issued by the authority rather than merely placing someone on a blacklist.

A new sub-section 21(5) is to be added after sub-section (4), granting the Chief Commissioner the authority to review and modify orders of blacklisting under sub-section (2). This provision introduces a mechanism for review and possible revision of decisions, ensuring procedural fairness. This proposed mechanism is likely to enhance the accountability and transparency of tax administration. The possibility of review could encourage compliance with tax regulations among registered persons, knowing that there are fair mechanisms for recourse if wrongly accused or if circumstances change.

TAX INVOICES [SECTION 23]

The Finance Bill, 2024 proposes an amendment to Section 23(3) of the ST Act. The proposed amendment substitutes the existing sub-section with a new provision mandating that a registered person making a taxable supply shall issue electronic invoices subject to such conditions, restrictions and limitation as the Board may by notification in the official gazette specify. This change removes the discretionary aspect of electronic invoicing and makes it obligatory for all taxable supplies. While electronic invoicing offers benefits, there could be initial compliance challenges for smaller businesses or those with limited IT resources. The tax authorities may need to provide guidance and support to ensure smooth implementation across all sectors.

AUDIT OF SALES TAX AFFAIRS [SECTION 25]

Under the current ST Act, Section 25 outlines provisions related to access to records and documents, as well as the audit process conducted by officers of Inland Revenue. The proposed changes seek to substitute Section 25 fully with the following provisions:

The Commissioner, based on recorded reasons, can direct an Officer of Inland Revenue (not below the rank of Assistant Commissioner) to conduct audits of a registered person's sales tax affairs. This amendment empowers the Commissioner directly in initiating audits without first obtaining records from the registered persons. This change has been proposed with the primary intent of nullifying the effect of previous court judgments, which held that the Commissioner cannot select the case of a registered person for audit without first obtaining records from that person.

The reasons for conducting audits must be communicated to the registered person. These reasons are based on scrutiny of available records, focusing on risk factors rather than routine verification. It seems that the amendments aim to enhance the effectiveness of tax compliance efforts.

The authorized officer conducting the audit can request any records or documents necessary for the audit, including electronic data. There's a specific provision limiting the timeframe within which records can be requested (six years from the end of the financial year).

The audit process involves attendance by the person being audited or their representative, and the officer can conduct inquiries and obtain information from third parties. This enhances the scope and rigor of audits.

Similar to the existing law, the proposed changes allow for electronic audit proceedings, maintaining alignment with technological advancements.

There are provisions for reducing or waiving penalties if tax deficiencies are voluntarily disclosed or tax paid before certain stages of the audit process. These are similar to the existing provisions of the ST Act. This encourages compliance and voluntary disclosure.

Currently, Section 25 of the ST Act restricts the conduct of an audit to once per year. However, the proposed revamping does not impose any such limitation on the frequency of audits.

INVESTIGATIVE AUDIT [SECTION 25-AB]

Section 25AB has been proposed to be newly added. The proposed insertion of Section 25AB, "Investigative Audit," into the ST Act, introduces a new mechanism for Inland Revenue officers to investigate potential tax fraud among registered persons. This section provides the circumstances under which an investigative audit can be initiated, the procedure for conducting the audit, and the possible actions that can be taken following the audit. Some of post audit actions are:

- The officer may pass an order after providing the registered person an opportunity to be heard.
- If the registered person fails to produce necessary documents, a best judgment assessment can be issued.
- The officer may blacklist the registered person.
- Penalties and prosecution may be imposed for tax fraud.
- The officer may disallow input tax on goods or services if the registered person cannot provide satisfactory documentation for the claimed transactions.

The language used in the proposed Section 25AB of the ST Act appears unclear and ambiguous, especially in its grant of authority to officers for conducting investigative audits. This ambiguity allows officers discretionary powers over such audits, potentially leading to legal disputes that are unnecessary and drawn-out. Further, an inconsistency emerges between Section 25AB and Section 21(2) of the ST Act. According to Section 21(2), it is explicitly outlined that the sole authority to issue orders of blacklisting resides with the Commissioner, with no provision for delegation to any other officer or with no provision to exercise this power below the rank of the Commissioner. However, the proposed change allows the officer (not below the rank of Assistant Commissioner) to use this power and blacklist the person.

SALES TAX RETURN [SECTION 26]

The Finance Bill, 2024 proposes to introduce a new sub-section (2A) in Section 26 of the ST Act. This new provision grants additional powers to officers of Inland Revenue regarding the enforcement of tax return filing; which includes the following:

- The new sub-section empowers an officer of Inland Revenue to issue a notice in writing to any person who, in the officer's opinion, is required to file a sales tax return but has failed to do so.
- The person receiving the notice must file the required return(s) within fifteen days from the date of service of the notice. However, the officer may specify a longer or shorter period for compliance.

The notice under this sub-section can only be issued within:

- Fifteen years from the end of the financial year in which the return was due, in cases involving tax fraud.
- Five years in all other cases.

We understand that extending the power to issue return filing notices for up to fifteen years would impose a significant burden on taxpayers, who would also be required to retain records for the same duration. Managing such extensive record-keeping responsibilities would be both cumbersome and hectic, leading to increased administrative costs. Currently, the requirement to maintain records is set at 6 years in the ST Act, which contrasts with the potential extension to fifteen years for issuing return filing notices.

PAYMENT THROUGH BANKING CHANNELS

[SECTION 73]

Under the current provisions of Section 73 of the ST Act, transactions exceeding Rs 50,000 must be executed through proper banking channels. Failure to comply with this mandate results in the buyer being ineligible to claim input tax credits, refunds, repayments, drawbacks, or zero-rating of tax under the ST Act.

The proposed Finance Bill, 2024 introduces a change by suggesting that the Rs 50,000 limit should be considered in aggregate. However, there is a lack of clarity regarding whether this aggregate threshold of Rs 50,000 applies to transactions with an individual supplier or a single period. This ambiguity necessitates further clarification to ensure proper compliance and interpretation.

CHANGES IN THIRD SCHEDULE TO THE ST ACT

Currently, the supply of DAP is subject to a 5% ad valorem sales tax. It is now proposed to include DAP in the Third Schedule of the ST Act, and impose sales tax based on the 'retail price'.

CHANGES IN FIFTH AND SIXTH SCHEDULE TO THE ST ACT

- It has been proposed that the zero rating on the following goods be withdrawn, and these goods be subjected to an 18% sales tax. However, milk not sold under a brand name is proposed to be exempt from this sales tax.

DESCRIPTION OF GOODS	PCT HEADING
Milk	04.01
Fat filled milk	1901.9090
Local supplies of commodities, raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021.	Respective headings

- The current sales tax regulations provide zero-rated status for the following goods, including raw materials, packing materials, sub-components, components, sub-assemblies, and assemblies imported or purchased locally for the manufacturing of the said goods. Additionally, sales tax exemption also applies to the following finished goods upon import or supply. Proposed changes in the Finance Bill, 2024 aim to eliminate these exemptions and zero-rating benefits for these goods and their associated raw materials and components. Instead, the supply of these finished goods will incur a reduced sales tax rate of 10%, except for 'preparations suitable for infants,' which will be taxed at the standard rate of 18%.

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

NEW EXEMPTIONS UNDER THE SIXTH SCHEDULE TO THE ST ACT

TABLE I & II

The Finance Bill, 2024 intends to exempt the following imports and supplies from sales tax.

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

WITHDRAWAL OF EXEMPTIONS FROM SIXTH SCHEDULE TO THE ST ACT

The Finance Bill, 2024 proposes to withdraw the current sales tax exemption for the import and supply of the following goods. Accordingly, the same would be exposed to sales tax at standard rate of 18%.

SR. NO.	DESCRIPTION OF GOODS
1	Edible vegetables imported from Afghanistan including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned
2	Fruit imported from Afghanistan excluding apples PCT 0808.1000
3	Cardiology/cardiac surgery, neurovascular, electrophysiology, endosurgery, endoscopy, oncology, urology, gynecology, disposables and other equipment
4	Diagnostic kits or equipment
5	Goods (excluding electricity and natural gas) supplied to hospitals run by charitable hospitals of fifty beds or more
6	Goods imported by hospitals run by non-profit making institutions
7	Machinery and equipment as listed at Serial No.32 of the Table of Part 1 of Fifth Schedule to the Custom Act, 1969

TRANSITION FROM EXEMPTION TO REDUCED RATE REGIME SIXTH TO EIGHT SCHEDULE

The Finance Bill, 2024 proposes to impose a reduced sales tax rate of 10% on the following goods that are currently exempt from sales tax.

DESCRIPTION OF GOODS	CONDITION
Import or supply of newsprint and books but excluding brochures, leaflets and directories	Refund of excess input tax shall not be admissible
Import or supply of oil cake and other solid residues	-
Import or supply of tractor;	-
Local supply of vermicillies, sheer mal, bun and rusk, excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers	-
Local supply of poultry feed, cattle feed, sunflower seed meal, rape seed meal and canola seed meal	Refund of excess input tax shall not be admissible

EXPIRY OF TIME-BOUND EXEMPTIONS FOR ERSTWHILE TRIBAL AREAS ON JUNE 30, 2024

The time-bound exemptions for the following supplies and imports in erstwhile tribal areas are set to expire on June 30, 2024. As of July 1, 2024, the Finance Bill, 2024, introduces a sales tax of 6% on these supplies and imports with certain conditions, increasing to 12% from July 1, 2025, to June 30, 2026.

SR. NO.	DESCRIPTION
1	Supplies meant for consumption in tribal areas
2	Import of plant, machinery, equipment for installation in tribal areas
3	Import of industrial inputs by the Industries located in tribal areas
4	Supplies of electricity to all residential and commercial consumers in tribal areas
5	Supplies of electricity to such industries (excluding steel and ghee or cooking oil industries in the tribal areas which were set up and started their industrial production before March 31, 2018.

TRANSITION FROM REDUCED RATE TO STANDARD RATE REGIME

The Finance Bill, 2024 proposes to levy a standard sales tax rate of 18% on the following goods which are currently taxed at a reduced rate.

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

ENHANCEMENT IN REDUCED RATE FOR PERSONAL COMPUTERS, LAPTOPS AND NOTEBOOKS

The Finance Bill, 2024 proposes to increase the sales tax rate on imported personal computers, laptop computers, and notebooks (whether or not incorporating a multimedia kit) from 5% to 10%.

PROPOSED AMENDMENT TO SALES TAX RATE FOR PHARMACEUTICALS

The pharmaceutical sector is presently subject to a reduced sales tax rate of 1%, as mandated by amendments introduced through the Finance Act, 2023, for medicaments classified under Chapter 30 of the First Schedule to the Customs Act, 1969, with certain exceptions. The proposed amendment in the Finance Bill, 2024 aims to reverse this reduced tax rate and levy the standard rate of 18% with retrospective effect from 1 July 2022.

CHANGES IN NINTH SCHEDULE TO THE ST ACT – MOBILE PHONES

The Finance Bill, 2024 proposes to apply a standard sales tax rate of 18% to the following categories of mobile phones, which currently have a fixed rate.

Description/Specification of Goods	Sales tax on import in CKD/SKD condition	Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4) of Table II of Ninth Schedule
A. Not exceeding US\$ 500	18% ad valorem	18% ad valorem
B. Exceeding US\$ 500	18% ad valorem	18% ad valorem

Further, the Finance Bill, 2024 has suggested allowing purchasers and importers to adjust input tax related to mobile phones and related input goods against the sales tax payable under the Ninth Schedule.

CHANGES IN ELEVENTH SCHEDULE – WITHHOLDING OF SALES TAX

- The proposed amendment suggests increasing the rate of sales tax to be withheld by registered manufacturers of lead batteries purchasing lead or scrap batteries from 75% to 80%.
- The proposal suggests that the following goods would be subject to withholding of sales tax at 80% of the sales tax applicable:

CATEGORY OF WITHHOLDING AGENT	CATEGORY OF SUPPLIER
Registered persons manufacturing cement	Persons supplying any kind of gypsum or limestone flux under Chapter 25
Registered Persons	Persons supplying any kind of coal under Chapter 27
Registered Persons	Persons supplying any kind of waste of paper and paper board
Registered Persons	Persons supplying any kind of plastic waste
Registered Persons	Persons supplying crush stone and silica

- Currently, sales tax withholding does not apply to supplies made by an active taxpayer to another registered person, except for advertisement services. The Finance Bill, 2024 introduces sales tax withholding for the following goods and services, regardless of transactions between active taxpayers and other registered persons:
 - advertisement services;
 - supply of lead or scrap batteries to manufacturer of lead batteries;
 - supply of any kind of gypsum to cement manufacturers;
 - supply of coal;
 - supply of waste paper and paper board;
 - supply of any kind of plastic waste; and
 - supply of crush stone and silica.

SIGNIFICANT AMENDMENTS

THE FEDERAL EXCISE ACT, 2005 [FE ACT]

EXCISABLE GOODS

TABLE I – FIRST SCHEDULE TO THE FE ACT

The Finance Bill, 2024 introduces the following new items to be classified as excisable goods and proposes to impose FED at the specified rates.

DESCRIPTION	PROPOSED FED
Acetate tow	Rupees forty-four thousand per kg
Nicotine pouches	Rupees one thousand and two hundred per kg
Sugar supplied by any person to a manufacturer	Rupees fifteen per kg

INCREASE IN FEDERAL EXCISE DUTY

TABLE I – FIRST SCHEDULE TO THE FE ACT

The Finance Bill, 2024 proposes to increase the FED on the following excisable goods.

DESCRIPTION	EXISTING FED	PROPOSED FED
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
Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	two rupees per kilogram	three rupees per kilogram
Filter rod for cigarettes	Rupees fifteen hundred per kg	Rupees eighty thousand per kg

RETAIL PRICE INCREASES FOR CIGARETTES

TABLE I – FIRST SCHEDULE TO THE FE ACT

The Finance Bill, 2024 suggests raising the threshold of retail price for different tiers of cigarettes produced in Pakistan, as outlined in the table below. This adjustment aims to accommodate the recent inflationary factors while ensuring that various brands remain within their designated tiers despite the price increase.

EXISTING RETAIL PRICE THRESHOLD	PROPOSED RETAIL PRICE THRESHOLD
Locally produced cigarettes if their onpack printed retail price exceeds Rs. 9,000 per 1,000 cigarettes.	Locally produced cigarettes if their on-pack printed retail price exceeds Rs 12,500 per 1,000 cigarettes.
Locally produced cigarettes if their onpack printed retail price does not exceed Rs 9,000 per 1,000 cigarettes.	Locally produced cigarettes if their on-pack printed retail price does not exceed Rs 12,500 per 1,000 cigarettes.

INCLUSION OF PROPERTY TRANSACTIONS IN EXCISABLE GOODS LIST WITH 5% FED

TABLE I – FIRST SCHEDULE TO THE FE ACT

The Finance Bill, 2024 suggests adding an item to the list of excisable goods, introducing a 5% FED on the allocation or transfer of commercial and residential properties. This duty will be applied in accordance with guidelines and restrictions to be established by the Board.

This proposal implements the amendment made to section 3 of the FE Act, through the Finance Act, 2023, which expanded the chargeable scope to include items not traditionally classified as goods or services, thereby incorporating immovable properties under the FED. Should this levy be applied to immovable properties within the provinces, it may raise questions about the Federal Government's constitutional authority to enforce this measure, potentially requiring a legal examination.

EXEMPTION ON IMPORT OF GOODS BY DIPLOMATS, DIPLOMATIC MISSIONS, PRIVILEGED PERSONS AND PRIVILEGED ORGANIZATIONS

TABLE I - THIRD SCHEDULE OF THE FE ACT

The Finance Bill, 2024 proposes to exempt the imports from FED implication for 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.

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