



INSIDE BUDGET 2023-24



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Initial Thoughts

We are grateful to take interest in reading Inside Budget 2023-24. The document is prepared to present some insights on key changes in tax laws through finance bill, 2023. We have highlighted precise but significant changes according to industrial sectors as well as identify tax measures which may have pervasive effects.

This is correct to the best of our knowledge and belief. The document is intended to provide general guide, imparting knowledge and help to understand changes in tax laws. It is useful to the clients, employees and general public but it's not all inclusive and comprehensive enough to make decisions, therefore, take early advice before act upon.

At last, please keep us update about your precious feedback.

From Desk of Tax Department

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Retail

- Currently, tier-1 retailers who are registered solely on the basis of cover area condition i.e. 1,000 square feet for general shops and 2,000 square feet for furniture shops. It has been proposed to omit this condition from the definition of tier-1.
- It has further been proposed to exclude Jewelers from tier-1 retailers.



- Sale of finished fabric, locally manufactured finished articles of textile by tier-1 retailers were subject to reduced sales tax at 12%, it has been proposed in the budget to increase sales tax from 12% to 15%.
- Local supplies to textile exporters authorized under Export Facilitation Scheme, 2021 fall under an export contract will now be subject to 1% withholding tax treated to be final.



- Reduced income tax rate of 0.25% is proposed on export of IT and IT Enabled services till tax year 2026.
- IT & IT enabled services will qualify as small and medium enterprise, for this they would require registration with SMEDA and PSEB.
- IT & IT enabled services will avail facility of reduced income tax by availing SMEs status.
- Concessional financing facilities
- Automated exemption certificate



- Final tax regime of sales tax at 1% was imposed through finance act, 2022. Currently this regime is only applicable on manufacture or import of substances registered as drugs under Drugs Act, 1976, **excluding medicaments**, that were subject to sales tax at standard rate. Now, it has been proposed to include medicaments also in the reduced fixed tax regime.
- Furthermore, Active Pharmaceutical Ingredients (APIs) used as raw material for manufacture of pharmaceutical products **excluding excipients** were also subject to 1% fixed tax. Now, it has been proposed to include excipients also under this regime.
- This has been proposed to take effect w.e.f July 01, 2022.



- It has proposed to introduce a tax credit on construction of a new house. The tax credit is available to individual who will furnish completion certificate. This benefit is proposed to be available for the tax years 2024 to 2026. The tax credit shall be allowed at the lesser of:
 - (a) 10% of tax assessed to the person for the tax year; or
 - (b) Rs 1 million
- The finance bill, 2023 has also proposed incentive of tax reduction for builder of new building project. The tax payable will be reduced by 10% or Rs. 5 million, whichever is lower for the tax year in which he furnishes completion certificate. This incentive is available for tax year 2024 to 2026.

S	mall &
M	edium
E	nterprises

- Currently, SMEs engaged in manufacturing are availing benefits of concessional income tax rates, where their turnover does not exceed Rs. 250 million. Now, it has been proposed to enhance this threshold to Rs. 800 million.
- Profits and gains of agro based SMEs will be exempt from tax for five years provided that they setup industry in rural areas.

NEW TAXES



- Increase in withholding tax rates on receipts from sales of goods, services and contracts. This will increase cost of doing business because all these withholding taxes fall under minimum tax regime.

The existing and proposed rates are herunder:

Sale of goods

Recipient type	Existing	Proposed
Individual & AOP	4.5%	5.5%
Company	4.0%	5.0%

Services

Recipient type	Existing	Proposed
Individual & AOP	10.0%	11.0%
Company	8.0%	9.0%

On the following services	Existing	Proposed
Transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited and inspection and certification, testing and training services, oilfield services.	3.0%	4.0%

- The bill proposed to enhance the threshold slabs of super tax, remember that super tax on high earning persons was levied through finance act, 2022.

S. No.	Income under section 4C	Tax year 2022	Tax year 2023
1.	Where income does not exceed PKR 150 million	0%	0%
2.	Where income exceeds PKR 150 million but does not exceed PKR 200 million	1%	1%
3.	Where income exceeds PKR 200 million but does not exceed PKR. 250 million	2%	2%
4.	Where income exceeds PKR 250 million but does not exceed PKR 300 million	3%	3%
5.	Where income exceeds PKR 300 million but does not exceed PKR 350 million	4%	4%
6.	Where income exceeds PKR 350 million but does not exceed PKR 400 million	4%	6%
7.	Where income exceeds PKR 400 million but does not exceed PKR 500 million		8%
8.	Where income exceeds PKR 500 million		10%

- The finance bill proposed to enhance existing 5.5% withholding tax on imports by 0.5% on items covered under Part-III of the twelfth schedule of the income tax ordinance, 2001.
- The bill proposed tax at 10% treated to be as final tax on issuance of bonus shares by listed or unlisted company.
- The bill proposed 0.6% withholding tax on cash withdrawal exceeding Rs. 50,000 from bank on persons who are not appearing in ATL.
- A new tax has been introduced whereby any authority responsible for issuing or renewing domestic aid visa will collect adjustable advance tax of Rs. 200,000 from employer of foreign domestic worker.
- The existing withholding tax is proposed to increase from 1% to 5% on international transactions from debit / credit cards on persons appearing in ATL and 10% on persons not appearing in ATL.
- Some edible items e.g., red chillies, ginger and turmeric that were exempt from sales tax in case sold without retail packing bearing brand names and trademarks, now, it's proposed to impose sales tax on these items whether or not sold in retail packing.

Thank you

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