



BUDGET COMMENTARY 2023

Focus: Companies

SECTION (CLAUSE)

THE INCOME TAX ORDINANCE, 2001

INCOME TAX

SECTION 2

SMALL AND MEDIUM ENTERPRISE

CLAUSE (59A)

As per the Fourteenth Schedule of the Income Tax Ordinance 2001 (the Ordinance) a special tax regime for SME sector which currently only includes manufacturers (as defined in section 153) having annual turnover up to Rs 250 million. This regime provides option to be taxed on final tax basis or special reduced rates under net income basis linked with the turnover threshold.

The Finance Bill 2023 (the Bill) has proposed following changes in the definition of SME:

1. The definition of SME is expanded to include persons engaged in providing IT services and IT enabled services as defined in the Ordinance.
2. Now the threshold limit of turnover for classifying the SME has been increased from Rs. 250 Million to Rs. 800 Million.

The proposal also mentions that once the threshold of turnover is breached in any tax year, than the person cannot classify itself as a SME in any of the subsequent tax years

The updated table of tax rates under the Fourteenth Schedule of the Ordinance is as under:

Category	Turnover	Rates	
		Normal	Final
I	Where annual business turnover does not exceed Rs 100 Million	7.5%	0.25%
ii	Where annual business turnover exceeds Rs 100 Million but does not exceed Rs 250 Million	15%	0.5%
III	Where annual business turnover exceeds Rs 250 Million but does not exceed Rs 800 Million	20%	0.75%

Clause (154) PART I SECOND SCHEDULE

TAX HOLIDAY FOR SME ENGAGED IN AGRO BUSINESS IN RURAL AREAS

The Bill proposes to introduce a tax exemption from income tax for SMEs setup exclusively as Agro based industry in a rural area duly notified, subject to fulfilment of certain conditions:

1. The profits and gains shall be exempt from tax year 2024 to tax year 2028;
2. The enterprise is required to be setup on or after July 1, 2023; and
3. The enterprise should not be formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

DIVISION IIB PART I FIRST SCHEDULE

RATE OF SUPER TAX

The Finance Bill 2023 (the Bill) has proposed to introduce new slab rates for super tax for taxpayers having income in excess of Rs 300 million. As a result, the highest slab rate of 10% will be applicable on taxpayers from all sectors having income in excess of Rs 500 million. The revised table for super tax rates is as under.

SECTION (CLAUSE)

THE INCOME TAX ORDINANCE, 2001

S.no.	Income under section 4C	For tax year 2022	For tax year 2023 and onwards
1.	Upto Rs 150 million	0%	0%
2.	Exceeding Rs 150 million but does not exceed Rs 200 million	1%	1%
3.	Exceeding Rs 200 million but does not exceed Rs 250 million	2%	2%
4.	Exceeding Rs 250 million but does not exceed Rs 300 million	3%	3%
5.	Exceeding Rs 300 million but does not exceed Rs 350 million		4%
6.	Exceeding Rs 350 million but does not exceed Rs 400 million	4%	6%
7.	Exceeding Rs 400 million but does not exceed Rs 500 million		8%
8.	Exceeding Rs 500 million		

SECTION 4C(5) ADVANCE TAX CALCULATION INCLUDE SUPER TAX

The Bill has proposed to enable the collection of super tax as advance tax and an enabling amendments have been made accordingly. The amendments shall take effect from July 1, 2023.

EIGHT SCHEDULE COLLECTION OF SUPER TAX BY NCCPL ON DISPOSAL OF SECURITIES

The Bill has proposed that Super Tax shall also be collected on capital gains on disposal of such securities under the Eighth Schedule through NCCPL

SECTION 236Z BONUS SHARES ISSUED BY COMPANIES

The Finance Bill 2023 (the Bill) proposes to tax on bonus shares and introduced a withholding tax provision (i.e., section 236Z) which will take effect from July 1, 2023.

Following is the brief of the said section:

Every company will be required to collect 10% tax from each shareholder at the time of issuance of bonus shares. The rate of tax for inactive taxpayers shall be 20%.

1. The value for such purpose shall be taken as equivalent of day-end price on the first day of book closure in the case of listed company. In case of unlisted company, the value shall be taken as prescribed.
2. Tax shall be deposited by the company, within fifteen days of closure of books, whether or not tax has been collected by the company.
3. A company liable to deposit tax under this section shall be entitled to collect and recover the tax deposited from the shareholder, on whose behalf the tax has been deposited, before the issuance of bonus shares
4. If a shareholder neither makes payment of tax to the company nor collects its bonus shares, within fifteen days of the date of issuance of bonus shares, the company may proceed to dispose of its bonus shares to the extent it has paid tax on its behalf
5. Issuance of bonus shares shall be deemed to be the income of the shareholder and the tax collected by a company under this section or proceeds of the bonus shares disposed of and paid under this section shall be treated to have been paid on behalf of the shareholder
6. Such tax will be treated as final tax.

**SECTION
(CLAUSE)
SECTION 99D**

THE INCOME TAX ORDINANCE, 2001

ADDITIONAL TAX ON CERTAIN INCOME, PROFITS AND GAINS

The Bill proposed to introduce additional revenue measure to tax certain income, profits and gains in addition to any tax charged, paid or payable under any of the provisions of the Income Tax Ordinance 2001 for any tax year preceding five tax years from tax year 2023, on every person who has any income, profit or gains that have arisen due to economic factor or factors that resulted in unexpected income, profit or gains whether or not disclosed in the financial statements.

The rate of tax shall not be exceeding 50% of the above income, profits or gains. The FBR shall separately specify the manner, conditions, scope, time, and payment details, concerning the tax payable under this section as required

This provision has an overriding effect on the other provisions of the Ordinance and enabling amendments has been made under Fourth, Fifth and Seventh schedule indicating that this section intends to target businesses making huge profits in the past i.e. Banks, Insurance companies etc.

**SECTION 113
DIVISION IX P-I
FIRST SCHEDULE**

REDUCTION OF RATE OF TURNOVER TAX FOR LISTED COMPANIES

The Bill has proposed to reduce the standard rate from 1.25% to 1% in case of listed companies.

SECTION 231 AB

ADVANCE TAX ON CASH WITHDRAWAL

The Bill has proposed adjustable advance tax on cash withdrawals of non-filers at the rate of 0.6% where the sum total of the payments for cash withdrawal in a day exceeds Rs 50,000.

**CLAUSE (22) PART-
III SECOND
SCHDEULE**

REDUCTION IN TAX LIABILITY FOR YOUTH ENTERPRISE

The Bill proposes to allow reduction in tax liability on Income from business for the tax years 2024 to tax years 2026 to youth enterprise in case of:

1. Individual or Association of Persons by 50% or Rs 2 million, whichever is lower; and
2. Company by 50% or Rs 5 million, whichever is lower.

Youth enterprise means a startup established on or after first day of July, 2023 as sole proprietorship concern owned by a youth individual or an AOP all of whose members are youth or a company whose hundred percent shareholding is held or owned by youth individual.

Provided that the startup is not formed by the transfer or reconstitution or reconstruction or splitting up of an existing business; and youth individual means a natural person up to the age of thirty years as on first day of the commencement of the relevant tax year;

Further, the reduction in tax liability is not applicable on the startup where the startup is covered under clause (19) of Part III of the Second Schedule

**SECTION
(CLAUSE)**
THE INCOME TAX ORDINANCE, 2001
**SECTION 152(2A)
and SECTION 153**
ENHANCEMENT OF RATE OF CERTAIN WITHHOLDING TAXES BY 1%

The Bill proposes to enhance withholding tax rates by 1% for payments covered by sections 152(2A) and 153 as referred above.

A comparison of the existing and proposed rates is given as under:

Description	Existing Rate	Proposed Rate
Sale of goods:		
- In case of company	4%	5%
-All other cases	4.5%	5.5%
Provision or rendering of:		
-Certain specified services	3%	4%
-Other services:		
o by company	8%	9%
o any other case	10%	11%
Execution of contract other than sports persons:		
-In case of company (resident)	6.5%	7.5%
-All other cases	7%	8%

**SECTION 148-PART
III TWELFTH
SCHEDULE**
ENHANCEMENT OF RATE OF TAX ON COMMERCIAL IMPORTERS

Rate of tax on commercial importers of goods classified in Part III of the Twelfth Schedule is proposed to be enhanced from 5.5% to 6% of the import value as increased by customs duty, sales tax and federal excise duty.

**SECTION
(CLAUSE)**

THE INCOME TAX ORDINANCE, 2001

SALES TAX

DEFINITION OF GOODS

2(12) & 2(33)(e)

Through Finance Act, 2022, 'production, transmission and distribution of electricity' were included in the definition of 'goods' and 'supply' to reaffirm the Federal Government's right to tax the same under the Sales Tax Act. This led to a legal controversy that whether the activity of transmission of electricity, being in the nature of a 'service', can be taxed by Federal Government consequent to the Eighteenth Amendment in the Constitution of Pakistan. Further, since it had already been held by higher courts that 'electricity' was in the nature of 'goods', specific inclusion thereof in definition of supply and goods was not essentially required.

Now, through the Bill, it has been proposed that such earlier amendment is done away and earlier applicable definition is restored.

Corresponding amendment has been made in the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 to tax Electric power transmission services. The Federal Government has, thus, implemented the understanding earlier reached with the Provincial governments in a meeting of National Tax Council.

2(43A)

TIER-1 RETAILER

The Bill has proposed to exclude following persons from the definition of 'Tier-1 retailer':

Existing

[(e) a retailer, whose shop measures one thousand square feet in area or more 110[or two thousand square feet in area or more in the case of retailer of furniture;] 111[***]

Proposed

sub-clauses (e) and (ga) shall be omitted.

[(ga) a person engaged in supply of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal excluding a person whose shop measures three hundred square feet in area or less;]

As a result of the above, such persons (not falling under any other criteria of Tier-1 retailer) will no longer be required to integrate their outlets with FBR's computerized system for real-time reporting of sales. Which would further ease the local business.

Karachi

2nd Floor, Block - C, Lakson Square Building No. 1,
Sarwar Shaheed Road, Karachi - 74200

Phone: +92 21 3568 3030

Telefax: +92 21 3568 4239

Lahore

Office No. 4, 6th Floor, Askari Corporate Tower, 75/76 D-1,
Main Boulevard Gulberg-III, Lahore - 54660

Phone: +92 42 3587 5707-10

Telefax: +92 42 3571 7351

Islamabad

3rd Floor, 22-East, Saeed Plaza, Blue Area,
Jinnah Avenue, Islamabad - 44000. Pakistan

Phone: +92 51 2604461-4

Telefax: +92 51 260 4468

Afghanistan

2nd Floor, Muslim Business Plaza, Haji Yaqoob Square,
Shahr-e-Naw, Kabul, Afghanistan

Phone: +93 202212428

Telefax: +92 21 3568 4239

This publication has been carefully prepared, but should be seen as general guidance only. You should not act upon the information contained in this publication without obtaining specific professional advice. Please contact BDO Ebrahim & Co. Chartered Accountants to discuss these matters in the context of your particular circumstances. BDO accepts no responsibility for any loss incurred as a result of acting on information in this publication.

BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the International BDO network of independent member firms.

BDO is the brand name for the BDO International network and for each of the BDO Member Firms.

Copyright © June 2023 BDO Ebrahim & Co. All rights reserved.

 www.bdo.com.pk

 info@bdo.com.pk

 [bdo-pakistan](https://www.linkedin.com/company/bdo-pakistan)

 [bdopakistan](https://www.facebook.com/bdopakistan)